BUILDING PARTNERSHIPS: A FINANCE SYSTEM FOR PUBLIC SCHOOLS

Final Report
Including A
Discussion Paper
On Financing
Public Schools:
Issues & Options

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BUILDING PARTNERSHIPS: A FINANCE SYSTEM FOR PUBLIC SCHOOLS

Section One

Final Report

EDUCATION FUNDING REVIEW PANEL
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November 19, 1992

The Honourable Anita Hagen
Minister of Education and Minister
Responsible for Multiculturalism
and Human Rights
Room 248, Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Minister:

As the Chair of the Education Funding Review Panel and in accordance with the announcement of the Panel and the Panel's mandate on June 3, 1992, I respectfully submit this document as our final report.

Yours truly,

Cindy Spangelo

Cindy Spangelo
Chair
Education Funding Review Panel

Acknowledgements

The Education Funding Review Panel would like to thank all those who contributed to the Review either by submitting written briefs, presenting their views during evening meetings, participating in afternoon workshops, or by sitting on the Advisory Committee.

The Panel would also like to acknowledge the contribution of the Committee of Elected Officials.

The Panel further acknowledges the Ministry of Education and Ministry Responsible for Multiculturalism and Human Rights for funding this consultative process.

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INTRODUCTION

ONE

This introductory chapter outlines the mandate of the Education Funding Review Panel, describes the process we have followed, explains what we learned during our regional public consultation meetings, and explains how this report relates to the *Issues and Options Paper*, included here in Section Two.

OUR MANDATE

On June 3, 1992 the Honourable Anita Hagen announced the Education Funding Review Panel. The Panel's mandate was to review the public education finance system and make recommendations to the Minister on how to make the system more

- accountable.
- equitable.
- predictable.
- stable.
- understandable.
- affordable.

The Minister also outlined specific questions that the Panel would address.

- How can greater predictability be introduced into the funding system?
- What principles should guide the design of an equitable and stable funding distribution system?
- How can those principles be applied to reduce the complexity of the current system?
- What should be the sources of funding for school boards?
- What changes are required to ensure clearer understanding of the roles and responsibilities of the co-governors of the system—the Province and school boards—in terms of education spending decisions?
- How can the system of "block funding" be improved?
- Should some elements of provincial funding be targeted for certain uses or should school boards have complete flexibility in how funds are best used?

THE PROCESS

The Panel created a three-part process to accomplish its task.

1. ***Call for input, June, 1992.*** We established an Advisory Committee consisting of 13 education partners as one way to solicit opinions and obtain input. We met with this committee five times to listen to concerns and priorities, present ideas, and receive feedback. A second committee, a Committee of Elected Officials, was created to provide the Panel with information on broad government policy initiatives. We met with this committee four times. Membership of these two

committees is listed on page 59 of the *Issues and Options Paper* (See Section Two). Through newspaper ads and letters to a general mailing list of over 2,500, we asked key education partners and members of the general public to provide us with their comments on how to improve the education finance system. We received over 300 written submissions during the summer.

2. ***Publication of a discussion paper and regional consultation, September 1992.*** The Panel published *Financing Public Schools: Issues & Options: A Discussion Paper*. The paper is based on the input we received through the written briefs and our working sessions with the Advisory Committee.

   The paper outlined the issues, the areas where we believed there was general agreement, and the areas where we believed discussion and debate were ongoing. For those areas where agreement was not apparent, we presented four sets of options in order to show the range of possible choices that will have to be made.

   In conjunction with the release of the *Issues and Options Paper*, we announced a series of seven regional meetings. The meetings were designed to provide education partners with another opportunity to present their views to the Panel on regional issues, regional priorities, and issues that might have been missed in the *Issues and Options Paper*.

   Each regional meeting consisted of two parts: an afternoon invitational workshop and an evening meeting open to all members of the public. The Advisory Committee was asked to designate a regional representative for each of the seven afternoon workshops.

   We received an additional 150 briefs in response to the *Issues and Options Paper*.

3. ***Preparation of the Final Report.*** The third part of the process was devoted to preparing the Panel's final report. The report incorporates input from the regional consultation process, feedback from the Advisory Committee, discussions of the *Issues and Options Paper*, and comments from over 500 written submissions.

REGIONAL CONSULTATION: WHAT DID WE LEARN?

The Panel held regional public meetings and invitational workshops in Prince George, Vancouver, Kelowna, Cranbrook, Surrey, Kamloops, and Victoria.

Meetings were well attended with a range of 50 to 200 people participating.

Evening presentations to the Panel reflected the differences in local issues from region to region. For example, transportation costs were a concern for those who attended in Prince George; the cost of rapid growth was a priority in Surrey and Kelowna; bussing was an issue in Cranbrook; and the costs of running a decentralized system were a concern in Kamloops.

The presentations also reflected strong common themes that were heard in all regions.

- ***Communication***. Presenters expressed a strong desire for more open communication and a more understandable system.

  > *(We) believe that the system which is ultimately adopted needs to be understandable, and increased parental confidence would be generated if it is understandable.*
  >
  > — presenter in Kelowna

  > *The present system is only really understood by a very few and oftentimes leads to much misconception. Boards should be encouraged to open the budget setting process to all the education partners.*
  >
  > — presenter in Kamloops

- ***Consultation***. Presenters expressed an appreciation of the opportunity to provide input and a request for some form of ongoing consultation.

  > *It is important also that the process started by the Education Funding Review Panel this summer does not stop at a tally of who supported which option but that there be an on-going consultation with the education partners. We might then arrive at solutions to the funding problems and inequities that have undermined the school system for almost a decade.*
  >
  > — presenter in Vancouver

  > *(We) believe that the education funding system can be markedly improved if it involves two-way communication. At the present time, the Minister makes an announcement: "This is what you're going to get" and then boards start their work. We really feel that better decisions would be made if boards could have input prior to that decision being made.*
  >
  > — presenter in Kelowna

- ***Partnership***. Presenters expressed a desire for more active involvement of key education partners.

  > *The involvement of various groups again such as parents, teachers, administrators, the business community, and students in a variety of planning opportunities such as strategic planning will further help to develop an understanding and appreciation for the decisions in the directions taken by boards.*
  >
  > — presenter in Kelowna

  > *(We) were happy to see that the Panel has embraced the concepts that education funding for our children is a responsibility shared by all. That all education partners should participate meaningfully to establish provincial levels of service, funding, and funding review for a core program.*
  >
  > — presenter in Cranbrook

- ***Accountability***. Presenters expressed a need for clearer accountability.

  My main concern about the finance system is accountability… School boards spend millions and millions of our tax dollars… Assuming this information is available, not many people, myself included, would have an idea who to ask or what to ask. The public has a right to know how the money is being spent and the right to easier access to that information. — presenter in Cranbrook

  … school boards must be accountable for allocated spending decisions, thus requiring full disclosure of information. The public has a right to know what funds were allocated by the Province based on provincial standards for education programs and how those funds were actually spent by individual boards.

  —presenter in Prince George

- ***Fairness***. Presenters expressed lack of trust in the fairness of the funding arrangements and a perception of funding inequities between districts.

  The present financial reporting system used in British Columbia is unable to support or shed light on whether the funded cost differentials actually exist or whether they should exist.

  —presenter in Surrey

- ***Special needs***. Presenters expressed concern about special needs funding.

  We need a funding system that recognizes and supports the right of special needs children to be part of our community… They are not going to be a shrinking percentage of our school population; they're going to be a growing percentage.

  —presenter in Victoria

  Special needs students are a reality in every classroom, in every special education resource room, in learning assistants' rooms, in many schools. The kids are there; the expertise and support is not.

  —presenter in Kamloops

AN EMPHASIS ON OPEN COMMUNICATION AND INCREASED ACCOUNTABILITY

In the *Issues and Options Paper* (pages 53 and 54), we described areas where we believed there was general agreement and where we thought agreement would be difficult to achieve. During the regional meetings, we found more evidence of general support for those issues where we identified the possibility of agreement.

On the contentious issues, the paper offered four sets of options in order to indicate the range of choices available. At our regional meetings, we heard arguments for and against all four options.

In this report, we have recommended changes that reflect the agreement in the community and the spirit of the presentations we heard on the themes of communication, partnership, accountability, fairness, and special needs.

We suggested in the *Issues and Options Paper* that no system will be perfect: no system will have all the characteristics that we consider desirable. We spoke of the need for trade-offs and the need to choose among alternatives.

We also spoke of the role of the finance system and said that it will not resolve difficult policy choices, such as how much money should be allocated to education.

The recommendations we have made do not resolve all the issues. In some cases, where trade-offs are necessary, we suggest new processes; in other cases, we clarify the issues, point out the strengths and weaknesses of different approaches, and conclude that from a finance point of view, two different approaches are equally viable.

Our emphasis reflects the emphasis we encountered during the regional consultation process: the need for more open communication and increased accountability.

A GUIDE TO THE FINAL REPORT

In Chapter Two we recommend changes to the distribution system and the system of block funding. We also make recommendations for increasing predictability through multi-year funding, recommendations for dealing with targeted funding, and recommendations on provincial taxation.

Chapter Three looks at local funding and local programming and makes recommendations for achieving a fair and accountable finance system, assuming that the Province will fund the core, or common level of service.

The final chapter summarizes the recommendations, looks at the recommendations in light of the desirable characteristics of a finance system, and suggests a timetable for implementation.

TWO ◀

PROVINCIAL FUNDING AND TAXATION

PROVINCIAL FUNDING AND DISTRIBUTION

Observations

One of the areas of potential agreement identified in the *Issues and Options Paper* concerned provincial funding. Discussions at the regional meetings confirmed a strong level of agreement that the provincial government should be responsible for defining and funding a common level of education service throughout the province. We have found less agreement, however, on three issues that have to be addressed in setting the level of provincial funding.

1. ***Defining a Common Level of Education Service***

   For most people, the desired common service (called the "core" in the *Issues and Options Paper*) goes beyond the mandated provincial curriculum to include some allowance for local curriculum decisions. However, definitions of an appropriate level of provincial service vary. For example, is a school band program a core subject? What type of counselling is required at the elementary level? What health care programs should schools deliver? Should schools provide day-care facilities for teenage mothers?

   Parents, educators and trustees have many excellent ideas about how education can be improved. Setting the level of provincial funding will require deciding which level of service the Province will support.

2. ***Converting Services into the Amount of Resources Required***

   Setting the level of funding requires converting the recognized common level of service into the amount of resources that will be required: for example, the student/educator ratio for the intermediate program, the number of counsellors for a large secondary school, the energy required to heat school buildings, and so on. However, it is difficult to get agreement on this conversion. For example, there is very little consensus among educators on appropriate class size. The research literature suggests that small changes in class size have very little impact on educational outcomes; but small changes in class size are associated with large costs. For example, reducing class size by one student for every class would cost $80 to $100 million. Also, decisions about class size have an impact on working conditions which may be unrelated to their educational impact.

3. ***Estimating the Cost of Purchasing Resources***

   The cost of purchasing the required resources ought to be relatively straightforward because the market price of those resources is known: for example, the price of textbooks, the cost of hiring a custodian. However, provincial funding is usually decided in anticipation of the school year ahead, and costs change during the school year as new labour contracts are signed and inflation pushes up the price of supplies. Cost increases have to be estimated, and those estimates may not be accurate.

These issues are difficult to resolve, but it is essential to resolve them satisfactorily if the Province is to provide all or most of the funding required for schools. These same issues are at the heart of most discussions about the "adequacy" of school funding. Resolving these issues will require choosing between a desirable level of service and an affordable level. The finance system cannot make that choice, but it can help illuminate the options.

The difficulties outlined above are magnified by the interaction of provincial funding and decentralized collective bargaining. The cost of running the school system is heavily influenced by the outcomes of collective bargaining — 90% of costs are personnel costs. Therefore, the "adequacy" of funds provided by the Province depends on whether provincial funding is consistent with the results of collective bargaining. If collective bargaining outcomes, such as limits on class size, preparation time, or salary levels, are different from those assumed in provincial funding, schools will not be able to provide the same level of service on which provincial funding is based.

Clearly, the Province cannot automatically "rubber stamp" collective bargaining outcomes by increasing provincial funding to match bargaining outcomes; to do so would exert no discipline on the bargaining process. But neither can the Province "bury its head in the sand"; the outcomes of collective bargaining are the real costs that school boards face. Therefore, local collective bargaining complicates the problem of defining an appropriate level of provincial funding.

The Sullivan Royal Commission recommended block funding as the answer to these problems. The block funding system is based on two principles.

1. ***A satisfactory starting point***. Select an appropriate starting point for funding, using the services actually provided in schools and the costs actually incurred by school districts to deliver those services. If the services provided in the base period are reasonable and acceptable, the level of spending by school boards in that period serves as a suitable funding base. The Province chose actual school spending in 1989/90, a year in which school boards had taxing powers and could set their own level of spending, as the basis for block funding.
2. ***Reasonable annual increases***. Increase funding each year by amounts that are sufficient to allow for changes in enrolment, changes in the cost of resources, and changes in mandated services. Operating funds for schools have increased by 28% in the three years since the introduction of block funding. Of this increase, 8% has been for higher enrolment. The remainder has been for changes in the cost of resources and changes in mandated services.

With a satisfactory starting point and reasonable adjustments each year, block funding offered the prospect of greater stability in service level than had been the case earlier in the 1980s. But block funding has not worked to everyone's satisfaction for a variety of reasons.

- ***The distribution question.*** To ensure access to a common level of education service across the province, the finance system must distribute provincial funds among districts fairly and in a way that people in the districts can understand. However, the distribution of funds under block funding has been controversial. A number of school boards, such as those in districts where enrolment is growing rapidly, have pointed to inequities in the formulas used to determine costs in different districts. Also, many of the people closely involved in public school education do not understand the current method of distributing funds. Comparisons of funding among districts have been expressed in terms of differences in costs per pupil, but the reasons for the differences have not been explained in a simple and straightforward manner.
- ***The "equalization" process.*** A separate cause for concern has been the "equalization" process that has accompanied block funding.[1] In using the 1989/90 spending level as the starting point for block funding, the Province also recognized that not all districts were providing the same level of service or using the same amount of resources to deliver that service. School boards were using local taxation to augment provincial funding, but the amount of local taxation varied widely among the districts. The move to block funding included redistributing funds in order to establish a more even distribution of services and resources.

  This process of redistribution, or "equalization," has caused two types of concern. In the first place, school districts with higher levels of tax have had to reduce the level of service that their communities had been used to receiving. This change has been characterized as a move to the "lowest common denominator" of service. For those districts, the process of adjustment has been difficult, and the Province has attempted to soften the impact by giving them special purpose grants.

  Second, districts where tax levels were below average under the old system are critical of the fact that the equalization process is still going on, and districts that were spending more under the old system are still receiving special purpose grants.
- ***Restrictions on local taxation powers.*** Local taxation powers were constrained at the same time that block funding was introduced. School boards cannot levy taxes without the approval of local taxpayers through a referendum. With restricted access to local

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[1] This issue is not the same as equalization of revenue-raising capacity discussed in the next chapter.

taxes, school boards lack a funding "safety valve." As a result, they have been particularly sensitive to the amount of funds provided by the Province and the method of distributing them.

- ***The disparity between bargaining outcomes and the economic adjustment factor***. The cost of collective bargaining outcomes has outstripped the economic adjustment factor provided through block funding. Table 2.1 illustrates the point by comparing average annual increases in teacher salary grids to the economic adjustment factor. But this comparison understates the full cost of bargaining outcomes because it excludes the cost of contract clauses regarding preparation time, noon-hour supervision, limits on class size, health care benefits, and other features of recent collective agreements. Because of this disparity, school boards have found it difficult to maintain previous levels of service and resources.

TABLE 2.1 **COMPARISON OF TEACHER SALARY GRID INCREASES AND THE ECONOMIC ADJUSTMENT FACTOR**

	Increase in Salary Grid	Economic Adjustment Factor
1990/91	7.26%	6.17%
1991/92	7.12%	3.75%

- ***Inability to predict the economic adjustment factor***. The Sullivan Royal Commission recommended that the block funding system include a link between the economic adjustment factor and a clearly defined economic index. This link would have given greater assurance that the annual adjustments would be reasonable and adequate. However, the present system does not involve using an index. Instead, the provincial government establishes the economic adjustment factor once a year as part of its annual budgeting process. As a result, school boards have few guarantees concerning the level of funding that will be available to them. They cannot plan programs with any confidence for more than one year in advance and are reluctant to enter into multi-year collective agreements with their staff.
- ***Centralized decision-making***. School boards have had limited input in decisions about the design of the block funding system, including decisions about the choice of base year and the equalization process. Equally, they have limited input on the size of the annual adjustment. Consequently, school boards have little

ownership of the system and no formal way to indicate their opinions about the size of annual increases.

Dissatisfaction with block funding has been compounded by confusion about the relationship between block funding and the distribution system. Block funding sets the overall size of the pie; the distribution system allocates the pieces of the pie. However, people find it hard to accept this distinction because, for one thing, the distribution system uses service levels and cost factors that they feel should be used to determine the overall size of the pie. Second, the distribution system is not based on current costs because the accuracy of the figures is not relevant for distribution purposes; however, the fact that the cost figures used to determine distribution are out-of-date further accentuates confusion about how block funding and the distribution system fit together.

Finally, block funding has not helped illuminate for taxpayers and parents the impact of financial decisions taken by the provincial government and school boards. For example, it does not help show the impact of provincial funding on the level of services school boards can offer or the impact of collective bargaining outcomes on the cost of delivering services.

For all these reasons, we believe that block funding and the distribution system have to be redesigned.

RECOMMENDATIONS

- ***Make the level of service supported by block funding more understandable by linking the block of funds to a resource-costing model based on defined services, required resources, and actual costs. This is not intended to result in an increase or decrease in the level of provincial funding.***
- ***Establish a clear relationship between the block of funds and the distribution of those funds to individual districts and communicate this relationship clearly to the education partners. Use the resource-costing model to define the funding for each district.***
- ***Address the inequities in the current distribution system that have been raised by school boards. Because the resource-costing model cannot be developed in time for the next school year, the current distribution system should be adjusted to take into account the criticisms raised by districts where enrolment is growing.***
- ***Involve education partners in the design of the resource-costing model. This will require defining a common level of education services, determining the resources required to deliver those services, and recognizing the actual cost of purchasing those resources.***
- ***Complete the process of "equalization" by eliminating special purpose grants.***
- ***Retain the concept of linking annual funding increases to growth in enrolment, changes in mandated services, and an economic adjustment factor.***

- ***Establish a collaborative fiscal planning process through which education partners can advise the government on funding requirements and the government can outline the fiscal constraints within which funding decisions have to be made.***
- ***Introduce greater predictability by tracking provincial funding against an economic index and by moving to a multi-year funding arrangement.***

In recommending these changes, we recognize that it will never be possible to reach complete agreement about what is an appropriate level of provincial funding. Nor can the Province "guarantee" a given level of service, because it must balance the public's desire for more education services with taxpayers' "ability to pay," and it must also allocate scarce tax dollars among competing programs. Also, the Province does not control how school boards use the funds. The level of service school boards deliver using provincial funds depends heavily on local management decisions and collective bargaining outcomes.

We do not suggest these changes in the expectation that they will result in an increase or decrease in the level of provincial funding. We do so because we believe the proposed changes will help create a funding system that is more understandable, fairer, and more predictable. The changes will create a better decision-making process and will make clearer the implications of different funding decisions. All partners in the education system are tired of hearing mixed messages about the impact of funding decisions on service.

The following sections provide more details regarding each of the recommendations.

The Resource-costing Model

The proposed resource-costing model is at the heart of the suggested reforms. Its purpose is to help all education partners understand the implications of alternative funding decisions: in other words, to help make the funding system more understandable than it is today. The model, which is based on defined services, required resources, and actual costs, would be used to explain the level of service and resources that the block of funds can support. School boards and the Province would both use it to describe the funding required to achieve a given service level and to show the impact of collective bargaining decisions on services.

Unlike the present system, the new model would integrate block funding with the distribution of the block. The funds distributed to individual districts would add up to the block of funds.

The resource-costing model would retain a formula-based approach to funding and distribution. Its purpose would be to capture the major influences on school district costs.

It would not be designed to replicate the line item budgets of school districts or to prescribe how funds should be allocated between different activities. A suggested structure for the resource-costing model is shown in Table 2.2. In it, funding is broken into four broad categories.

TABLE 2.2 **OUTLINE OF A RESOURCE-COSTING MODEL**

Common Costs
(Same in each district)

$ per school district — to cover fixed costs at the district level

$ per school — to cover the fixed costs of operating and maintaining a school

$ per pupil (weighted by grade level) — to cover the variable costs of instruction, equipment, and administration

Plus:
Special Resource Needs
(will vary from district to district)

Special needs students

Language and culture programs

Transportation

Small schools

Management of change (growth and decline)

Other

Plus:
Exceptional Costs
(will vary from district to district)

Remoteness/isolation/climate

Qualifications/experience of teachers

Aging facilities

Capacity utilization

Other

Plus:
Local Programming
(For all districts)

1. ***Common costs***. All districts would receive the same level of funding for common costs. Common costs would include fixed overhead expenses associated with running a district and operating schools and the variable costs associated with services to individual students. Funding for common costs would be based on costs per district, per school, and per pupil, and these cost levels would be the same in all districts. As enrolment increased, a district would receive additional funds for each pupil, based on the common cost per pupil.
2. ***Special resource needs***. Many districts have additional resource needs, the cost of which would be added to the common costs. These needs include programming and support for special needs students; language and culture programs, including ESL and aboriginal programs; the transportation of students to school; the extra cost of delivering programs in small schools; and the management costs associated with

change. The formulas in this section would identify incremental costs above and beyond those identified in the common costs.

3. ***Exceptional costs***. The cost of purchasing resources varies from district to district. In remote districts costs are higher. In some districts, average teacher salaries are higher than the provincial average because teachers have more experience and/or qualifications than the norm. Older facilities tend to be more expensive to heat and maintain. Rapidly growing districts tend to have higher operating costs because their facilities are being used to capacity and they have to operate with a large number of portables. Additional funding above the common costs would be provided to meet these exceptional costs.
4. ***Local programming***. The funding provided by the Province would include an allowance for local programming.

Most of these elements are recognized in the current distribution system. The current formulas would not be discarded; they would form the starting point of the resource-costing model. Although some changes have to be made, there is no need to "re-invent the wheel" where the current formulas work well.

Because the resource-costing model recognizes fixed costs, special resource needs, and exceptional costs, the overall per-pupil funding will be different in each district. These differences are necessary in a fair funding system. However, the proposed model should make the reasons for the differences easier to understand than they are today.

Designing the new formulas will involve choosing between a system that reflects "what is" and a system that reflects "what can be." For example, a school district may have high operating costs because its buildings are old and inefficient. Failure to recognize these costs would be unfair to that district. At the same time, to recognize the district's actual operating costs would provide no incentive to improve the quality and efficiency of its buildings. The formulas developed must strike a balance between equitable treatment and incentives to be efficient.

Those who design the formulas will also have to make choices about the level of complexity of the model. The more the model tries to reflect all the individual differences among districts, the more complicated it will become. Some choices will have to be made between the desire for simplicity and the objective of equity.

The resource-costing model should use the actual cost of purchasing resources, including the costs that result from collective bargaining. For example, it would use actual teacher salaries. It must do so, however, in a way that does not lead or distort the bargaining process. Therefore, these costs would be averaged across districts: for example, by using an average salary grid. Known changes in statutory costs (e.g., UIC, CPP) would also be reflected in the model.

Collective bargaining affects more than salaries. Other outcomes of bargaining (e.g., preparation time, noon-hour supervision, limits on class size) ought to be reflected in the resource-costing model if they apply to most districts. To ignore them would give a misleading picture of the real costs faced by school boards and the services they can provide.

Recognizing actual costs does not mean that the Province agrees to fund all the outcomes of collective bargaining. The resource-costing model simply demonstrates the impact of collective bargaining on the services that can be provided with provincial funding. The reality of bargaining outcomes cannot be ignored.

Inequities in the Distribution System

The design of the resource-costing model should address the issue of inequities in the current distribution system. But the new model will take some time to develop. Therefore, some of the flaws in the current distribution system should be addressed on a priority basis for 1993/94. These flaws include the concerns of rapidly growing districts and the items identified in the last Financial Management System (FMS) Committee report but not yet implemented.[2] The changes would include:

- re-examining all economies-of-scale features in the funding formulas, particularly those associated with special needs programs and ESL programs.
- greater recognition of the cost of operating, maintaining, and moving portables.
- reconsidering the threshold for funding enrolment increases after September 30.
- greater recognition of the impact on maintenance costs of utilizing facilities to full capacity.

Development of the Resource-costing Model

The resource-costing model will be a central feature of the education finance model and should be developed by the Province in conjunction with school boards. A committee of elected co-governors of the education system (provincial ministers and school trustees) should guide the development work. This committee should establish a technical committee to design the structure of the resource-costing model. The technical committee would present its report to the committee of co-governors.

The technical committee should be composed of representatives from the following.

- Ministry of Education and Ministry Responsible for Multiculturalism and Human Rights (chair)
- School trustees

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[2] For an explanation of the role of the FMS Committee, see page 38 of the *Issues and Options Paper* in Section Two.

- District superintendents
- District secretary-treasurers
- Principals and vice-principals
- BCTF
- CUPE
- Parents' association

The technical committee will be charged with designing a model that is fair and understandable. The committee will present the design of the new system in plain language in a form that all partners in the education system can understand.

School boards will be asked to provide information on the cost of delivering programs. In developing its recommendations, the technical committee will prepare proposals and circulate them to all school districts for comment.

This is a major exercise. It should be started immediately, but it cannot be completed quickly. It is more important to get general acceptance than to meet an arbitrary timetable.

Annual Update of the Resource-costing Model

Once developed, the resource-costing model will have to be reviewed and updated each year. The purposes of the review will be to:

- suggest ways to modify the distribution system in order to ensure a fair allocation of provincial funds.
- ensure that the cost factors used accurately reflect the real costs faced by school districts by taking into account general price trends in the economy and the results of collective bargaining.

The annual review would be undertaken by the same technical committee that developed the model. However, the terms of reference of the committee will exclude consideration of the overall size of the block of funds. The committee will consider only the impact of changes in cost factors and service levels on the method of distributing a given block of funds. The committee will be responsible for suggesting technical changes that will ensure the integrity of the resource-costing model. Its purpose is not to suggest ways in which the overall funding level should be increased.

In many respects the annual review by the technical committee will be similar to reviews conducted in recent years by the Financial Management System Committee.

Although we believe that the annual review process is useful, we discourage constant tinkering with the system. Annual changes in the distribution formulas should be kept to a minimum, and the technical committee should address only serious inequities. A thorough adjustment to the formulas would take place every three to five years.

Annual Increases in the Block of Funds

The Province will continue to base increases in the block of funds on changes in enrolment, changes in mandated services, and an economic adjustment factor. The resource-costing model would use these same factors to determine the level of funding for each district. In the proposed resource-costing model each district will receive the same increase in the common cost per pupil, and that increase will be based on the economic adjustment factor plus any amount allowed for changes in the mandated services. Where appropriate, districts will also receive additional funds to cover increases in exceptional costs and special resource needs.

The provincial government should use the resource-costing model to compare the level of service and resources the current year's funding is expected to provide with that of the previous year. If current funding cannot sustain the previous level of services or resources (either because of weakness in revenues or because collective bargaining outcomes have outstripped the economic adjustment factor), the government should make those implications clear to school boards. The formulas used in the model would be changed to reflect the level of service and resources that current funding can provide.

A Collaborative Fiscal Planning Process

The Province and school boards should collaborate on fiscal planning. This will allow boards to have more say in decisions on the size of the economic adjustment factor and the allowance for changes in mandated services.

The Province and school boards should hold a fiscal planning session in the fall of each year. The Province would outline its own fiscal outlook and the implications for school funding and services. The Province would invite boards to present their collective view of spending priorities for the school system as a whole in a form to be co-ordinated by the BCSTA. Their proposed budget would include the cost of anticipated enrolment and changes in services for the next school year. The planning session would discuss the impact of different funding levels on service and would assist the Ministry in preparing its budget request to Treasury Board.

The fiscal planning process should help the Province make well-informed choices. School boards will have an opportunity to say what they require before decisions are made. Boards will be aware of the government's fiscal picture.

As input for these sessions, the Province would use the information on costs developed by the technical committee in the summer.

Predictability in Funding

The proposed resource-costing model will help improve predictability in provincial funding during a school year. The model will make clear how much additional funding each district will receive for each additional student enrolled. In this way, school boards will be able to calculate with some certainty the amount of funds they will receive if actual enrolment exceeds the projected enrolment figure used in provincial funding. The block of funds should be increased during the year to allow for increases in enrolment and changes to the composition of enrolment.

Although this change will help school boards plan within the school year, they will still have to deal with variations in provincial funding from year to year. One of the recurring criticisms we have heard concerns instability in the funding of schools. Chart 2.1 illustrates the instability in funding over the last decade by comparing annual changes in school spending to price and salary changes in the economy. It shows that school spending has been much more volatile than the economic indices. This instability in spending has come from the combined effect of changes in provincial funding and changes in local funding through local taxation.

CHART 2.1 **GROWTH IN SCHOOL SPENDING COMPARED TO PRICE AND SALARY INDICES**

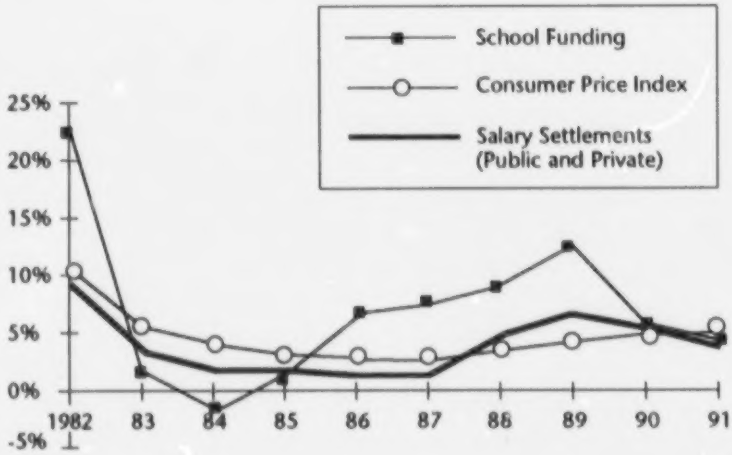

Chart 2.2 illustrates the impact of instability in funding on the average student/educator ratio[3] in schools over the same 10-year period. Following the period of financial restraint in the early eighties the ratio increased. The ratio fell in the second half of the decade as the pace of school spending increased. The ratio begins to increase again at the end of the decade. This degree of instability seriously impedes the capacity of school boards to deliver a consistent level of service.

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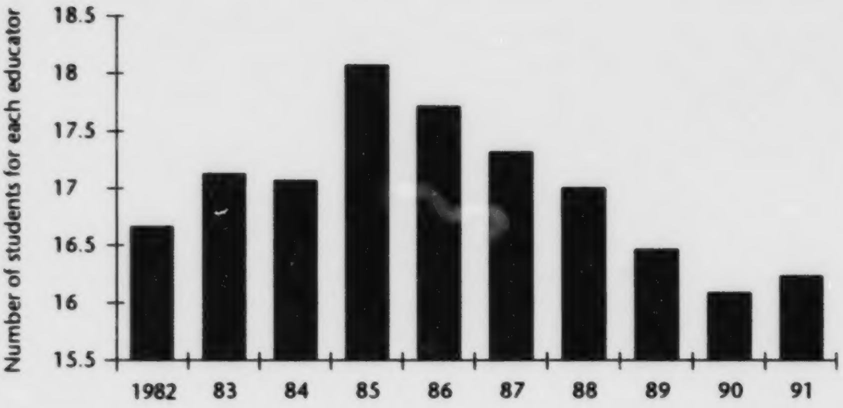
[3] Also referred to as the pupil/teacher ratio.

CHART 2.2 **CHANGES IN STUDENT/EDUCATOR RATIO**



The Royal Commission recommended that the provincial government should promote stability in school funding by linking the block of funds to a well-defined economic index. We are sympathetic to this approach but foresee some difficult practical problems in designing a suitable index. Because most indices are based on historical data, they tend to be somewhat out of date. For example, in a period of economic decline the index may not reflect the full extent of the weakness in the economy. Although indexing may promote stability in funding, decisions that result from indexing may be based on information that does not reflect the current economic reality.

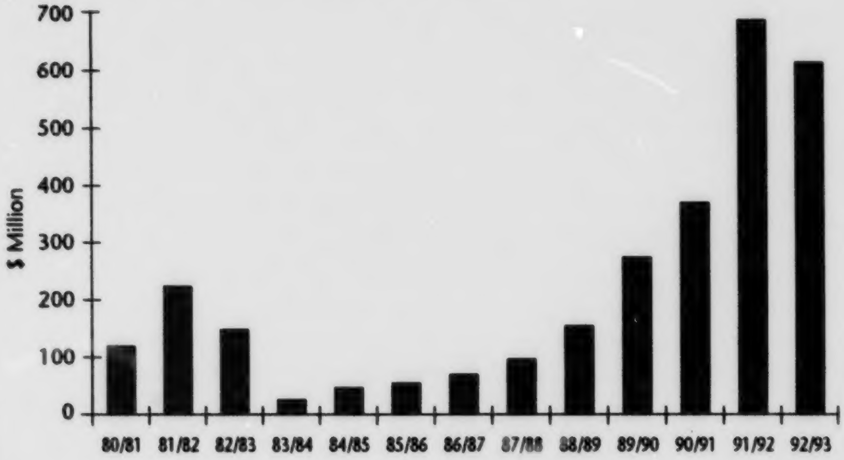
Because we are concerned that any index chosen could quickly become discredited, we do not support a rigid link between provincial funding and an economic index. However, we would like to see a close connection over time between the annual economic adjustment factor and a general price and salary index. We would expect the provincial government to track provincial funding against such an index. The Ministry would monitor this connection and discuss the results with school boards at the annual fiscal planning session.

Although we do not favour rigid indexing of provincial funds on an annual basis, we would like school boards to have more predictability in their funding. We believe the best way to do this is to move to a system of multi-year funding for education. The economic adjustment factor should be established for two years at a time rather than one.

Stability in provincial funding should apply to capital spending as well as operating costs. In the early 1980s, capital spending was sharply restrained. As a result, capital spending has had to increase rapidly in recent years (see Chart 2.3). While capital spending is an obvious and visible candidate for restraint during periods of slow revenue growth, to curtail capital works is counterproductive to the economy and simply delays necessary spending to a time when the cost of construction may be much higher than during an economic downturn. The Province should avoid repeating this pattern of capital spending.

Capital funding decisions should be based primarily on enrolment growth, building renovation needs, and the impact of changes in mandated services.

CHART 2.3 **CAPITAL FUNDING ALLOCATION**



TARGETING PROVINCIAL FUNDS AND ACCOUNTABILITY FOR THE USE OF FUNDS

Observations

Under the co-governance model in place in British Columbia, school boards have the primary responsibility for managing schools and delivering programs in the best interests of their students. For this reason, the Province sets the broad framework for education and provides most of the funding required but leaves to each school board the responsibility for the day-to-day management of the schools. In keeping with this division of responsibility, the finance system puts very few specific restrictions on the way school boards spend provincial funds.

We agree with this approach. In general, provincial funding should not be a prescription for school spending, and the resource-costing model should not be an attempt to simulate a line-item budget for each school district. In some situations the Province may wish to target funds: for example, where all districts do not provide a particular program, or where the Province has a special interest in seeing the funds used in a well-defined manner, or where the initiative is time-limited (examples are the school lunch program, the school accreditation process, and new technology initiatives). Such situations should remain small in number, and the targeted funds should be provided outside the block of funds.

We appreciate that many people are not satisfied with the current approach; they wish to see more restrictions on school board spending and more guarantees that provincial funds are spent for the purposes for which they were intended. We are sympathetic to the concerns raised, but we see the answer in stronger accountability for spending decisions rather than in tighter restrictions on spending decisions. For example, we are not satisfied that the restrictions on how much school districts budget for special needs programs (Section 129.1 of the *School Act*) are a useful way of ensuring that schools deliver suitable services to students with special needs. We are concerned that placing too much emphasis on how much school boards spend for particular programs may detract from the more important question of how effectively boards use their money. We believe the school system should pay more attention to the issue of integrating special needs children and in particular, to the level of resources required and how those resources are used. But we believe this issue requires an in-depth review, not arbitrary budgetary rules.

Our emphasis on accountability reflects a persistent theme in the briefs and in the regional meetings. Taxpayers and parents want to be sure that public funds allocated to education are being used efficiently and effectively. Certainly, the provincial government and school boards are accountable in the same ways as other elected governments: through the ballot box, through public decision-making, and through the constant scrutiny of staff, parents, taxpayers and the media. But the information provided by governments to the public on school funding and spending decisions can be improved in a number of ways. The following are some examples of places where communication could be improved.

- The Province's budget and public accounts contain only the most general information on the level of funding for education.
- Information on the distribution of funding to school districts and the method of calculating the allocation for each district is not readily available, either from the Province or from school districts.
- The annual report of the Ministry of Education and Ministry Responsible for Multiculturalism and Human Rights contains very little financial information and analysis. The report does not contain information about finances at the district level.
- School district annual reports are uneven, both in scope and quality; they contain very little information on finance or the link between finance and services.
- School districts put out financial statements that no one but accountants can understand.
- Neither the Ministry of Education or any other agency provides much analysis of financial information. Taxpayers wish to know if they are getting "value for money." Although the Auditor General has jurisdiction in this area, that office has not undertaken a comprehensive audit of school funding.
- The provincial government has a responsibility to provincial taxpayers to ensure that school boards make good use of public funds. School boards must prepare budgets and financial statements in a standard way and file them with the Ministry of Education. However, the Province does not publish any analysis of how well school boards manage the funds provided.

RECOMMENDATIONS

- ***Keep targeting of provincial funds to a minimum. Funds targetted to specific programs should be allocated separately from the block of funds.***
- ***Replace Section 129.1 of the*** School Act ***dealing with restrictions on board budgets for special education programs with a new requirement for reporting on the way school boards allocate funds for special education programs.***
- ***Commission a special study on the appropriate service levels, the resources required for integrating special needs students and the way school districts use provincial funds for special needs students.***
- ***Improve access to information on financial decisions. The Province and school boards should take the following steps to implement this recommendation.***
    - ***The Province should publish a guide to the finance system written in plain language. The guide should be updated each year.***
    - ***Each year the Province should make available to parents and taxpayers an explanation of the overall funding level for schools and the expected impact on service. The document should deal with the whole province, and it should compare current funding and level of service to funding and level of service in the previous year. It should also contain information on the funding for each district.***
    - ***The Province should require each school board to publish a summary of its annual budget containing information on staffing levels and other costs. The summary should compare current proposed spending to spending in the previous year and explain the differences. This information should be readily available to parents and taxpayers. The summary should be included with tax notices.***
    - ***The Province should require school boards to present their budgets in such a way as to provide more detailed information on staffing levels and other resources used. The Province should compile and publish the information in an easy-to-read format.***
    - ***The Province should require each board to file a detailed comparison of its budget and its actual spending in each fiscal year. The format of this report should illustrate services provided, resources used, and the cost of purchasing resources. In other words, it should contain information that will be useful in developing and reviewing the resource-costing model.***
    - ***The Province should target special funds to help school boards implement these measures.***
- ***Consult with school boards to develop ways of providing more complete analysis of financial information, including:***

- ***an annual review and analysis of education funding and spending patterns.***
- ***efficiency and effectiveness indicators for the government and school boards to use.***
- ***plain-language financial reporting mechanisms to help taxpayers and parents understand how well school districts are managing with the funds provided.***

PROVINCIAL TAXATION

Observations

The property tax base in B.C. is shared by many governments: the Province, school districts, municipalities, regional districts, and others. As we noted in the *Issues and Options Paper*, this can lead to problems of understandability and accountability. When property taxes go up, taxpayers may not know who is responsible. When they don't know who is responsible, the system is not accountable.

We suggest a couple of solutions to the problems associated with sharing the property tax base. The Province should:

- clarify policy on provincial school property taxes and property tax relief; and
- stabilize provincial property taxes for schools.

1. ***Clarify policy on provincial school property taxes.***
   We recognize that the Province can do a number of things to improve clarity in provincial school property tax policy.
   - ***Either link provincial property tax increases directly to increases in school spending or do not refer to the provincial property tax as a school tax.*** Provincial property taxes for schools would be easier to understand if they had a direct link to school spending. For example, if school spending increases by 5% in one year, the provincial property tax for schools should also increase by 5%. This direct link would make it easier for taxpayers to understand the relationship between provincial property taxes for schools and school spending.

     If there is no relationship between provincial property tax increases and increases in school spending, then we see no reason to earmark provincial property taxes for schools. One of the justifications for earmarking is to let taxpayers know how their tax dollars are being used. If there is no direct relationship between property taxes and school expenditures, then the label "school tax" is inappropriate. The label should be dropped, and taxpayers should be told that the provincial property tax is going into the general revenues of the Province.

     Municipalities prefer to have provincial property taxes earmarked for schools because they see that as a constraint on how much the Province will raise in property taxes. However, from the standpoint of a more coherent system of education finance, we see no advantage in calling the provincial property tax a "school tax" unless tax increases are linked directly to school spending increases.

- ***Identify provincial school taxes.*** At present, the provincial tax for schools is identified separately on the property tax bill. This practice lets taxpayers know how much they are being taxed by each level of government and helps them determine which level of government is accountable for tax changes. This system helps to avoid confusion and increase accountability.
- ***Clarify the purpose of property tax relief.*** The home owner grant is a form of property tax relief that directly reduces the amount of tax home owners pay. The home owner grant reduces school property taxes first, and the balance is used to reduce other taxes. As we noted in the *Issues and Options Paper*, some people feel that the link between the home owner grant and school taxes does not make sense. We agree that instead of being directed at school taxes, property tax relief should be part of provincial tax policy. The home owner grant should be regarded as general property tax relief.

2. ***Stabilize provincial property taxes for schools.***

In using property taxes to fund education, we believe that the Province should promote stability in the taxation system. If provincial property taxes or the home owner grant change dramatically from year to year, taxpayers find it hard to understand why there have been changes and which level of government is responsible.

We recognize that a school tax system based on property values will never be truly stable, especially when property values are volatile. However, the present provincial policy attempts to bring some stability to the system in different parts of the province by applying a different tax rate in each school district. Under this policy, the rates are highest where assessed values are low and lowest where assessed values are high. The result is greater evenness in tax revenues from different districts.

We believe that this policy should be continued because it provides a reasonable compromise between a uniform-rate system and one that generates uniform taxes across districts.

RECOMMENDATIONS

- ***Link annual increases in the provincial property tax for schools directly to annual increases in school spending. If this link is not possible, do not label the provincial property tax as a school tax.***
- ***Continue to identify provincial property taxes separately on property tax bills.***
- ***Apply the home owner grant to general property taxes rather than to school taxes.***
- ***Continue to apply differential property tax rates in different parts of the province in order to create a balance between uniform rates and uniform taxes across districts.***

LOCAL FUNDING AND LOCAL TAXATION

THREE ◀

As we noted in the previous chapter, there is general agreement among the education partners that the Province should be responsible for defining and paying for a common level of education throughout the province. There is also general agreement among the education partners that school boards should be responsible for managing the schools and for delivering programs.

There is, however, a difference of opinion about local funding. At the regional meetings, opinions were fairly evenly split for and against giving school boards the power to raise funds through taxes. Some partners felt that local taxation is essential for local autonomy; other partners felt that local autonomy could be achieved by including an allowance for local programming in the distribution formula.

LOCAL FUNDING

Observations

There are two issues related to local funding.

- What would local funds be used for?
- Should the Province fund local programs or should school boards raise funds for these programs through local taxation?

1. ***What would local funds be used for?***

   If the Province defined a common level of education services throughout the province and provided funds to pay for those services, what would local funding be used for? There are three possible uses of local funds:

   - to pay for local programming, including programs that are not included in the common level of services but which a school board wants to provide in order to respond to the needs and desires of local residents. An example might be a string band program.
   - to compensate for any discrepancies arising from the distribution formula. Since a formula by its nature can only approximate differences across districts, some boards will feel that they have not been adequately compensated. Local funding would permit those boards to correct for perceived errors in the distribution of provincial funds.
   - to pay for bargaining outcomes where there is local bargaining.

2. ***Should the Province fund local programs or should school boards raise funds for these programs through local taxation?***

   The issue of whether or not school boards should be able to tax remains controversial. We believe there are two viable options: provincial funding with local flexibility or local funding of local programs.

- ***Provincial funding with local flexibility***

  The proponents of a provincial funding model argue that if the common level of service were clearly defined, it could include sufficient discretionary funds for local programming. Each board would receive an amount for local programming (for example, 3% to 4% of provincial funding) without having to raise taxes locally.

  There are advantages to provincial funding with local flexibility.

  - Provincial funding would safeguard equality of opportunity. Boards with a weak tax base would have the same access to funds as boards with a strong tax base. Provincial funding without local taxation would remove the need for equalization to compensate for variations in the ability to raise funds through local property taxes.
  - School boards would not have to incur the administrative and political costs associated with raising taxes.
  - Provincial funding is less confusing to taxpayers than a combination of local and provincial funding because only one level of government (the Province) is levying taxes for education. Concerns about the adequacy of funding can be directed to the Province.

  There are also disadvantages to provincial funding with local flexibility.

  - School boards have less autonomy and flexibility to respond to local needs and desires. School boards that want to spend more than the amount allocated in the provincial funding formula would not be able to do so.
  - Since a distribution formula by its nature can only approximate differences in costs across districts, some boards will feel the provincial funding formula under-estimates their actual costs. Under provincial funding, school boards would have no opportunity to raise funds to correct for perceived errors in the distribution of provincial funds.
  - Accountability is not as clear when one level of government levies the taxes and another level of government decides how to spend the money. Under the provincial funding model, the Province is responsible for levying taxes for local programs, but school districts are in charge of spending the money.

- ***Local funding of local programs***

  The proponents of local funding argue that giving school boards the power to raise funds locally through taxation is essential to provide local autonomy and flexibility.

  Local funding has certain advantages.

  - School boards can make their own decisions about how much tax revenue they need to pay for local programs.

- School boards have more autonomy and flexibility to respond to local needs. Residents of a particular district can have any program they want if they are prepared to pay for it. This kind of flexibility encourages the development of "lighthouse" programs.
- School boards can get access to local tax revenue in order to compensate for perceived discrepancies in the provincial distribution formula.

Local funding also has some disadvantages.

- Equality of opportunity may be compromised because richer districts can provide better services than poorer districts. Local funding may require equalization.
- Adding another taxing authority to the property tax base may result in an increase in property taxes unless the Province reduces its property taxes by an equal amount. As an example, if school boards were to levy taxes to pay for an additional 4% of provincial funding (about $250 per pupil), the residential school property tax would increase by about $128 per household on average.
- Over time, school boards may regard "local" expenditures as part of the common level of education service and put pressure on the Province to fund them. If the Province does not fund them, school boards will blame the Province for inadequate funding and the Province will blame school boards for spending too much. It may not be clear to parents and taxpayers which level of government is responsible for funding a particular program. It would be easier for people to understand the difference if the Province clearly defined the common level of provincially funded service and made that information readily available.

There will be greater pressure for local funding if school boards and other education partners see provincial funds as insufficient or the distribution system as unfair. In that case, school boards will want to have the ability to raise additional funds and to correct for inequities in the distribution formula. This means that the definition of the common level of service throughout the province and the design of the distribution formula are critical elements in deciding whether school boards should have the power to levy taxes.[4]

The choice depends, for the most part, on a decision regarding local autonomy: does local autonomy require local taxation or can a provincial funding system provide adequate flexibility and autonomy at the local school board level? There appears to be a fundamental difference of opinion on this question, which goes beyond education finance and into the issues of governance and the fundamental powers of school boards.

[4] If there is local taxation to pay for local programming, then the resource-costing model would not have to include as much for local programming.

Given a decision on this basic issue, the education finance system can develop mechanisms to produce either a model for provincial funding with local flexibility or a model for local funding of local programs.

RECOMMENDATIONS

- ***As the first priority of education funding reform, define a common level of education service and design a distribution formula that the education partners can agree on.***
- ***Determine which of two financially viable local funding models will be implemented: one that includes some allowance for local flexibility within provincial funding formulas or a model that gives school boards authority to levy taxes locally. The Province should make this choice after defining the common level of provincially funded service and redesigning the distribution system.***

LIMITING LOCAL FUNDING

Observations

If school boards have the authority to levy local taxes, there are two questions to consider.

- Should the tax authority of school boards be limited?
- What kind of limits should be placed on the taxation authority of school boards?

1. ***Should the tax authority of school boards be limited?***

   If school boards have the authority to levy taxes locally, there is a strong argument for limiting the amount of money they can raise locally. The argument is based on equality of opportunity. Every provincial resident should have access to the same basic level of education, regardless of the wealth of the district in which they live. When school boards have the power to levy taxes, some will have access to more tax revenues than others and will therefore be able to provide a higher level of service than other boards. Limiting the taxation powers of school boards would safeguard equality of opportunity.

   We believe that local funding would work best if it were restricted to funding local programming. However, there is no way to prevent school boards from using it for other purposes. If property tax notices included information on the use of local school taxes, taxpayers could more easily hold school boards accountable for their decisions.

2. ***What kind of limits should be placed on the taxation authority of school boards?***

   The Province could place formal dollar limits on the taxation authority of school boards or it could initiate processes to restrict their taxation and spending powers.

   There are three ways to set formal dollar limits:

   - ***a fixed tax rate***. The Province sets a maximum tax rate that school boards can levy on residential assessment (for example, $0.80 per $1,000 of assessed value).

- ***a fixed expenditure per pupil.*** The Province sets a fixed limit of dollars that school boards can raise per pupil (for example, $250 per pupil).
- ***a fixed percentage of provincial funding.*** The Province sets a limit expressed as a fixed percentage of provincial funding (for example, a school board can raise 4% of the amount per pupil it receives from the province).

The problem with setting a fixed tax rate is that boards with a large residential assessment base will be able to raise much more revenue than a board with a small residential assessment base. If the Province placed this type of limit on school boards, it would need to develop some mechanism for equalizing school taxation capacity across the province.

The difference between a fixed expenditure per pupil and a fixed percentage of provincial funding is related to differences in costs among districts. Limiting school boards to a fixed expenditure per pupil would allow all districts to spend the same amount of money per pupil. This assumes that the distribution formula has compensated for cost differences among districts (i.e., differences in the cost of transportation, heating, etc.) and no further differentials are needed in relation to local programming.

Limiting local funding to a fixed percentage of provincial funding means that boards with higher costs and thus a larger provincial allocation per pupil could also raise more funds locally. This assumes that cost differences related to the core program would also be relevant to local programming. As an example, higher costs in remote areas would be reflected both in provincial funding and in local funding.

The difference between a limit based on an amount per pupil and a limit based on a percentage of provincial funding depends on one's view of whether cost differences across districts are relevant to local programming. Since we believe that most cost differences are already taken into account in the distribution formula and that the additional cost of local programming is largely comprised of instructional costs, we prefer a limit based on a fixed expenditure per pupil.

The *Issues and Options Paper* listed four other ways to restrict local taxing and spending, in addition to formal dollar limits.

- ***Referenda.*** Taxpayers must approve school board tax levies through a referendum.
- ***Petitions.*** A petition from a large number of taxpayers would force a school board to reconsider a tax decision.
- ***Voting proportion.*** An increase in spending would require agreement by a large majority of the school board.
- ***Disclosure.*** School boards would be required to consult with the public before deciding on an annual budget.

Although we believe that a formal limit on the taxing or spending authority of boards is appropriate, boards should also be permitted to make expenditures (and levy taxes) that exceed these limits if they have the approval of voters. They could seek approval through a referendum for expenditures above the specified limits.

Referenda have not been successful in the past in large part because the authority granted by a referendum lasts for only one year. Even if a referendum passes, the school board would have to go back to the voters each year to continue the funding. This is unacceptable because programs usually need more than one year to be effective and the cost of running annual referenda would be substantial.

For this reason, we recommend changes to the referendum provision that would provide for a longer period of approval. For example, a referendum could guarantee program funds for a period of three years, to coincide with the election term of school boards.

To minimize confusion and increase accountability, the local school board tax should be clearly identified on the property tax bill, separate from the provincial school tax. Taxpayers should be able to see clearly how much provincial school tax they are paying and how much local school tax they are paying.

Finally, if a school board decides to raise a fixed amount per pupil, the total amount should be raised in the year in which the decision is made, even though the school year begins half way through the taxation year. Current legislation supports this recommendation by requiring the full implication of a tax policy to be felt in the year it is made.

RECOMMENDATIONS

- ***If school boards have the authority to levy taxes, restrict that authority to a fixed expenditure per pupil.***
- ***Restrict the use of local funding to expenditures for local programming.***
- ***Require school districts to distribute information about locally funded services in conjunction with property tax notices.***
- ***Allow school boards that want to spend more on local programs than the provincial limit per pupil to levy additional taxes with the approval of local voters through referenda that will authorize local funding for a period of more than one year.***
- ***Identify school board taxes clearly on property tax notices.***
- ***Collect school board taxes in the year the board decides to levy the tax, even though the school year starts halfway through the tax year.***

Observations

If school boards have limited taxation authority, two additional issues need to be resolved.

- What sources of revenue should be available to school boards?
- Should the Province equalize for differences in local tax revenues?

1. ***What sources of revenue should be available to school boards?***

   School boards could levy residential property taxes, non-residential property taxes or income taxes. The *Issues and Options Paper* evaluated each of these sources of revenue. The following is a brief summary of that discussion.

   Income taxes are not an appropriate source of revenue for school boards because:

   - the administrative costs would be prohibitive if school boards designed and collected their own income taxes.
   - "piggybacking" school board income taxes onto federal and provincial income taxes would not be compatible with local autonomy and accountability.

   Non-residential property taxes are not an appropriate source of revenue for school boards because:

   - accountability is weak when the people paying taxes (in this case, commercial property owners and consumers) are not voters in the jurisdiction where the tax is levied.
   - all school districts do not have equal access to non-residential property tax revenues.

   Residential property taxes are the most appropriate source of revenue for school boards because:

   - residential taxpayers can make the connection between their taxes and the level of service provided by the schools and can hold school boards accountable for their decisions.
   - they help preserve equality of opportunity by not giving districts with a relatively large share of non-residential assessment an advantage over districts that are largely residential.

2. ***Should the Province equalize the differences in local tax revenues?***

   In a system that includes local school taxes, the commitment to equality of opportunity requires some form of provincial equalization. This is because some districts have access to more local tax revenue than others.

   The more revenue school boards are allowed to raise through taxation, the more need there will be for some form of equalization. If school board taxes are limited to a fixed expenditure per pupil, there will be less impact on equality and less need for equalization.

   The main weakness in equalization is its effect on accountability. When property taxes (especially residential property taxes) raised in one district are redistributed to another district, the people spending the money are not accountable to the people who are paying the taxes. Local taxation also has less appeal to taxpayers when they can see that their tax dollars are being spent outside their community.

There are also practical problems with equalization schemes.

- What measure of wealth should the equalization formula use? Should it be assessed property values, income, or some other measure?
- What standard of equality should be used? Should we take as the standard the average wealth in all districts or the wealthiest district?

For reasons of both practicality and accountability, we recommend against a full-scale equalization program. Rather, we believe that the Province should transfer provincial funds to school boards with the least capacity for levying taxes. This would give the poorest districts some capacity to provide a level of service comparable to other districts. In addition, it would mean that the Province is using general revenues (income taxes, sales taxes, property taxes, and other revenues) rather than money raised from local property taxes to compensate poorer districts.

An example will help to illustrate how this form of equalization would work. Suppose that the provincial limit on school board taxes is $250 per student. For the province as a whole, this amount represents an average local school tax of $128 per household. Under the form of equalization we propose, the Province would assist districts that would have to tax each district household more than $160 (or 125% of $128: the average tax per provincial household) in order to raise the allowable limit of $250 per student.

An approach similar to this was used in British Columbia in the late 1980s.

RECOMMENDATIONS

The following recommendations apply only if the Province chooses the option of using local school board tax revenue to pay for local programming.

- ***Limit the taxation authority of school boards to taxes on residential property.***
- ***Provide equalization funds to districts which choose to levy taxes but which have inadequate taxation capacity. Transfer equalization funds to districts where the allowable tax per household exceeds 125% of the provincial average allowable tax per household.***

SUMMARY AND CONCLUSIONS

FOUR ◀

SUMMARY OF RECOMMENDED CHANGES

The purpose of this chapter is to summarize the recommendations discussed in Chapters Two and Three, to suggest an implementation schedule, and to compare the proposed changes to the desirable characteristics of an education finance system.

In Chapter Eight of the *Issues and Options Paper* we divided our summary of the debate over education finance into two parts:

- areas of potential agreement, most of which dealt with provincial funding, distribution and taxation; and
- areas where choices are needed, which dealt with a combination of provincial and local funding and taxation issues.

The discussions at the regional meetings confirmed the areas of agreement and pointed out the need to state our recommendations as clearly and precisely as possible. Using the areas of agreement as the backbone of our recommendations, we have given shape and form to a proposed structure of public school finance.

DIFFICULT ISSUES

There are several issues for which there was no agreement on how to proceed. In some cases, we have made recommendations that reflect our views about the best approach. In other cases, we have presented the advantages and disadvantages of the alternatives to assist the government in making the choice.

Prominent among these issues is the question of taxing powers for school boards. There is no consensus among the education partners on whether school boards should be able to tax for local programming. The regional meetings reinforced the lack of consensus: some presenters argued strongly in favour of local taxation; others argued just as strongly against it.

We believe that primary responsibility for funding schools should remain with the Province. We believe school boards should have some local flexibility in programming, but we recommend limiting this flexibility in order to maintain equity in educational opportunity across districts. We see two viable ways of achieving this flexibility.

1. The Province provides each district with funds for local programming.
2. School districts have access to local tax revenues to pay for local programming.

In our view, the choice between the two is based more on principles of governance than on education finance. Therefore, we are not making a final decision on this issue. Whatever the final choice, however, we recommend limiting the amount of funds that can be used for local programming and requiring school boards to show clearly that they are using the funds for local programming and not for some other purpose.

COMPLETE LIST OF RECOMMENDATIONS

Provincial Funding and Distribution

1. Make the level of service supported by block funding more understandable by linking the block of funds to a resource-costing model based on defined services, required resources, and actual costs. This is not intended to result in an increase or decrease in the level of provincial funding.
2. Establish a clear relationship between the block of funds and the distribution of those funds to individual districts and communicate this relationship clearly to the education partners. Use the resource-costing model to define the funding for each district.
3. Address the inequities in the current distribution system that have been raised by school boards. Because the resource-costing model cannot be developed in time for the next school year, the current distribution system should be adjusted to take into account the criticisms raised by districts where enrolment is growing.
4. Involve education partners in the design of the resource-costing model. This will require defining a common level of education services, determining the resources required to deliver those services, and recognizing the actual cost of purchasing those resources.
5. Complete the process of "equalization" by eliminating special purpose grants.
6. Retain the concept of linking annual funding increases to growth in enrolment, changes in mandated services, and an economic adjustment factor.
7. Establish a collaborative fiscal planning process through which education partners can advise the government on funding requirements and the government can outline the fiscal constraints within which funding decisions have to be made.
8. Introduce greater predictability by tracking provincial funding against an economic index and by moving to a multi-year funding arrangement.

Targeting Provincial Funds and Accountability for the Use of Funds

9. Keep targeting of provincial funds to a minimum. Funds targetted to specific programs should be allocated separately from the block of funds.
10. Replace Section 129.1 of the School Act dealing with restrictions on board budgets for special education programs with a new requirement for reporting on the way school boards allocate funds for special education programs.
11. Commission a special study on the appropriate service levels, and the resources required for integrating special needs students and the way school districts use provincial funds for special needs students.

12. **Improve access to information on financial decisions. The Province and school boards should take the following steps to implement this recommendation.**

    - The Province should publish a guide to the finance system written in plain language. The guide should be updated each year.
    - Each year the Province should make available to parents and taxpayers an explanation of the overall funding level for schools and the expected impact on service. The document should deal with the whole province, and it should compare current funding and level of service to funding and level of service in the previous year. It should also contain information on the funding for each district.
    - The Province should require each school board to publish a summary of its annual budget containing information on staffing levels and other costs. The summary should compare current proposed spending to spending in the previous year and explain the differences. This information should be readily available to parents and taxpayers. The summary should be included with tax notices.
    - The Province should require school boards to present their budgets in such a way as to provide more detailed information on staffing levels and other resources used. The Province should compile and publish the information in an easy-to-read format.
    - The Province should require each board to file a detailed comparison of its budget and its actual spending in each fiscal year. The format of this report should illustrate services provided, resources used, and the cost of purchasing resources. In other words, it should contain information that will be useful in developing and reviewing the resource-costing model.
    - The Province should target special funds to help school boards implement these measures.

13. Consult with school boards to develop ways of providing more complete analysis of financial information, including:

    - an annual review and analysis of education funding and spending patterns.
    - efficiency and effectiveness indicators for the government and school boards to use.
    - plain-language financial reporting mechanisms to help taxpayers and parents understand how well school districts are managing with the funds provided.

Provincial Taxation

14. Link annual increases in the provincial property tax for schools directly to annual increases in school spending. If this link is not possible, do not label the provincial property tax as a school tax.
15. Continue to identify provincial property taxes separately on property tax bills.
16. Apply the home owner grant to general property taxes rather than to school taxes.
17. Continue to apply differential property tax rates in different parts of the province in order to create a balance between uniform rates and uniform taxes across districts.

Local Funding

18. As the first priority of education funding reform, define a common level of education service and design a distribution formula that the education partners can agree on.
19. Determine which of two financially viable local funding models will be implemented: one that includes some allowance for local flexibility within provincial funding formulas or a model that gives school boards authority to levy taxes locally. The Province should make this choice after defining the common level of provincially funded service and redesigning the distribution system.

Limiting Local Funding

20. If school boards have the authority to levy taxes, restrict that authority to a fixed expenditure per pupil.
21. Restrict the use of local funding to expenditures for local programming.
22. Require school districts to distribute information about locally funded services in conjunction with property tax notices.
23. Allow school boards that want to spend more on local programs than the provincial limit per pupil to levy additional taxes with the approval of local voters through referenda that will authorize local funding for a period of more than one year.
24. Identify school board taxes clearly on property tax notices.
25. Collect school board taxes in the year the board decides to levy the tax, even though the school year starts halfway through the tax year.

Local Taxation

The following recommendations apply only if the Province chooses the option of using local school board tax revenue to pay for local programming.

26. Limit the taxation authority of school boards to taxes on residential property.
27. Provide equalization funds to districts which choose to levy taxes but which have inadequate taxation capacity. Transfer equalization funds to districts where the allowable tax per household exceeds 125% of the provincial average allowable tax per household.

IMPLEMENTATION ISSUES

We believe the changes we recommend will help provide a firmer foundation for education finance. However, we are concerned about the timing of the proposed changes because the expected benefits could be lost if the changes are implemented at the wrong time or without the support of education partners. We see the following obstacles to major reform for the 1993/94 school year.

- Some of the proposals require time to implement. The most important is the resource-costing model. We have proposed a structure for the model, but the detailed formulas have to developed. This will be best done as a co-operative exercise among education partners, and it will take some time to complete the exercise.
- Our own mandate did not include a review of collective bargaining. We have looked at all the issues in the context of today's bargaining structure. The Commission of Enquiry into the Public Service and the Public Sector (Korbin Commission) is conducting a review of public sector bargaining issues and will be reporting in the new year. Because bargaining and finance are so closely connected, we suggest that our recommendations should be considered in conjunction with those of the Korbin Commission.
- The provincial government has indicated that funding for all programs will be limited in 1993/94. We are concerned about implementing changes during a period of fiscal restraint. We are concerned that structural reform will become controversial if it is intertwined with the impact of funding restrictions. For example, taxpayers may see a decision to return taxation authority to school boards in a period of tight provincial funding as "off-loading" provincial responsibilities rather than as a way of clarifying responsibilities.

For these reasons, we recommend that major changes be implemented for the 1994/95 school year. Table 4.1 presents a suggested timetable.

TABLE 4.1 SUGGESTED IMPLEMENTATION TIMETABLE

Issue	Timing
Resource-costing model	Form technical committee immediately — to report by the summer of 1993. Implement recommendations for the 1994/95 school year.
Inequities in distribution	Deal with priority issues in 1993/94.
Fiscal planning process	Initiate in the fall of 1993 for the 1994/95 school year.
Indexing of block/multi-year funding	Discuss the design of a suitable index with education partners in 1993. Use in the first joint fiscal planning process in the fall of 1993.
Provincial taxation	Include a statement on provincial school property tax policy in the 1993 budget.
Minimum use of targeted grants	Reconsider all targeted grants for the 1993/94 provincial block of funds.
Separation of targeted grants from the block	Identify the purpose and outcome of any targeted grants for the 1993/94 budget, and provide separately identified amounts.
Repeal of Section 129.1 of the *School Act*	Repeal the section by the end of March 1993. Implement special needs programs reporting in the 1993/94 school year
Special needs study	Begin at once and require the report by July 1993. Implement the accepted recommendations in the 1994/95 budget.
Access to information In consultation with school boards, develop the following.	
• Annual provincial funding document	Prepare and issue document in the spring of 1993, based on the 1993/94 budget.
• School board budget summary	Prepare and issue summaries in the spring of 1993, based on the 1993/94 budget.
• Plain language guide	Prepare and issue guide in the spring of 1994, based on the 1994/95 budget, after the resource-costing model has been implemented
• Provincial comparison of board bugets	Prepare and issue comparison in the spring of 1994, based on the budgets of 1994/95.
• School board spending report	Require reporting in the fall of 1994, based on the spending of the 1993/94 year.
Financial analysis Through the 1993 financial planning process, develop the following.	
• Annual analysis	Produce the first annual analysis in the summer of 1994 based on the information available.
• Efficiency and effectiveness indicators	Produce indicators as part of the first annual analysis in the summer of 1994.
Decision on local taxation and equalization	If school boards are to have taxation powers, in 1993 discuss with school trustees how to limit those powers. Implement taxing authority for the 1994/95 school year.

DESIRABLE CHARACTERISTICS OF AN EDUCATION FINANCE SYSTEM

In the *Issues and Options Paper*, we set out a number of characteristics that we consider desirable for an education finance system. We argued for a system that is:

- understandable and accountable.
- stable and predictable.
- fair.
- adequate and affordable.
- flexible and adaptable.

In this section, we show how our recommendations help develop an education finance system with these characteristics. Some of our recommendations affirm aspects of the current education finance system while others suggest fundamental changes to that system.

An Understandable and Accountable System

Our recommendations would make the education finance system more understandable and accountable by:

- simplifying the system.
- requiring more information to support accountability.
- requiring more collaboration with education partners.

1. ***Simplification***

We believe that the education finance system we recommend will be easier to understand for a number of reasons.

- The division of responsibilities between the Province and the school boards will be clearer. The role of the Province will be to define and fund a common level of service throughout the province; the role of school boards will be to manage schools and deliver programs.
- The block of provincial funds will be linked to a resource-costing model based on defined services, required resources, and actual costs. This means that it will be easier to understand how the block of funds was determined.
- The resource-costing model will also establish a clear connection between the block of funds and the distribution of funds to individual districts. The sum of individual district funding will equal the total block of funds.
- The distribution formula will be easier to understand. The formula will be divided into four broad categories: common costs, special resource needs, exceptional costs, and local programming. It will be clear where costs differ between districts and where they are similar.
- The distribution of funds will be based on current costs. Each district will be able to compare its allocation with that of other districts. They will be able to see that when costs are different, the allocations are different.

2. ***More information***

We have made a number of recommendations which call for the Province and school boards to provide the public with more information. The following recommendations should ensure greater accountability for taxing and spending decisions.

- Tax bills will continue to identify the amount of property tax the Province is levying for schools.
- If school boards have the power to levy taxes, tax notices will clearly identify the amount of local school tax and the purpose for which the funds will be used.
- Plain language financial reporting mechanisms will show how the Province is spending its funds for education and how school districts are managing their funds.

3. ***More collaboration***

We recommend more collaboration with the education partners on important issues.

- The education partners will be involved in the design of the resource-costing model.
- A collaborative fiscal planning process will allow education partners to advise government on funding requirements, and government will have an opportunity to explain the fiscal constraints that affect its funding decisions. The education partners will learn about the implications of different funding decisions.

A *Stable and predictable system*

We have made several recommendations to increase the stability and predictability of the education finance system.

- Multi-year funding, in which the Province provides advance notice of the economic adjustment factor for more than one year at a time, will enhance school boards' ability to plan for the future.
- In setting the economic adjustment factor, the Province will explain the funding level in relation to trends in prices and wage and salary settlements so that the education partners can see the increase in education funding in a broader economic context.
- Provincial property taxes will be more stable and comprehensible if they are linked directly to school spending.
- Continuing the policy of applying different tax rates in different districts will ensure stability in the provincial residential property tax across districts.

A Fair System

We have suggested ways to make the education finance system more equitable.

- The Province will define and fund a common level of service throughout the province. This is one of the ingredients needed to ensure that all residents of the province will be guaranteed a common level of education service, regardless of where they live.

- Including actual cost differences in different districts in the distribution formula will result in a fairer distribution of provincial funds from district to district.
- A new distribution formula will address current inequities across districts.
- The Province will continue the current policy of applying different provincial property tax rates in different districts.
- If there is school board taxation, it would be restricted to a fixed amount per pupil so that boards with a greater capacity for taxation will not have an unfair advantage over boards with less tax capacity. This measure will lessen the impact of the disparities in taxation capacity across districts.
- If school boards have the power to tax, the Province would adopt some equalization mechanism to ensure that districts with the least capacity for raising tax revenue could receive assistance from the Province.

An Adequate and Affordable System

Although the finance system cannot make the choice between a desirable level of service and a level of service that is affordable, it can help to illuminate the debate.

- The recommendations describe a process that will give the education partners a say in the relevant decisions.
- This process will also clarify the implications of different choices: for example, the additional cost of enhancing the level of service or the impact of cutbacks in provincial funding on service levels.

A Flexible and Adaptable System

Whatever the final choice between provincial funding with local flexibility built-in or local funding of local programs, our recommendations would make the education finance system more flexible and adaptable.

- School boards will remain responsible for deciding how they will spend provincial funds. Keeping the targeting of provincial funds to a minimum will give school boards considerable spending discretion.
- Either of the two available options will guarantee that school boards have some flexibility to develop local programs that meet local needs.

CONCLUSIONS

Taken together, our recommendations address the issues raised in meetings with the Advisory Committee and in the regional consultation process. We are aware that we have not answered all of the questions as well as some people would have liked. Where we have not recommended a firm course of action, we have suggested processes through which the education partners can address those issues. On some of the more contentious issues our responses will be unacceptable to various individuals or groups. We have had to make some difficult choices.

Although we have tried to structure our recommendations to create an education finance system that meets all of our criteria, our emphasis has been on understandability and accountability. Many people in the community seem to feel that governments are not accountable to parents and taxpayers or even to each other for their taxing and spending decisions. We believe that the education finance system will be more accountable if funding decisions become more transparent and more comprehensible and if the decision-making process includes the education partners more fully.

Education finance will never be free of controversy. People will always disagree about how much of our public resources we should devote to education and how those resources should be used. Debate over these issues is a natural and healthy part of the making of public policy. However, we look forward to a period of stability in the structure of education finance. Rather than focussing on the specific details of funding formulas and taxation rules, we would like to see more attention directed at the objectives of education funding, the resources required to achieve those objectives, and the ability of schools to meet those objectives with the resources available.

Further, we would like to see less emphasis on education finance issues in general and more on issues such as curriculum and standards. We hope that our recommendations will help to bring some stability and accountability to education funding in British Columbia so that the focus of energy can move to quality of education issues.

APPENDIX 1

ORAL PRESENTATIONS TO PANEL, OCTOBER 1992

Barb Baker
Cranbrook

School District #4 (Windermere)
Invermere

School District #11 (Trail)
Trail

School District #1 (Fernie)
Fernie

School District #7 (Nelson)
Nelson

School District #3 (Kimberley) and Teachers' Association
Kimberley

Cathy Fairclough
Cranbrook

Elaine Fawcett
Cranbrook

East Kootenay District Labour Council
Cranbrook

Marilyn Kopernick
Cranbrook

Sandy Nakano
Cranbrook

Windermere District Teachers' Association
Windermere

Fernie District Teachers' Association
Fernie

School District #86 (Creston-Kaslo)
Creston

City of Castlegar
Castlegar

Cranbrook Chamber of Commerce
Cranbrook

B.C. Federation of Labour
Cranbrook

Anita Pringle
No Address

Frank Berton
No Address

Arnold Louden
Cranbrook

School District #29 (Lillooet)
Lillooet

B.C. School Trustees Association (Main Line Cariboo Branch)
Kamloops

School District #89 (Shuswap)
Salmon Arm

School District #30 (South Cariboo)
Ashcroft

Kamloops District Teachers' Association
Kamloops

Cariboo-Chilcotin Teachers' Association
Williams Lake

Kamloops Christian School
Kamloops

North Okanagan Labour Council
Kelowna

Learning Disabilities Association of Castlegar
Castlegar

Lake Country Native Association
Oyama

Central Okanagan Parent Advisory Council
Kelowna

Learning Disabilities Association of Kelowna
Kelowna

Roger Helland
Kelowna

Project Equity, School District #23 (Central Okanagan)
Kelowna

School District #12 (Grand Forks)
Grand Forks

Vernon and District Association for the Mentally Handicapped
Vernon

Princeton Economic Development Commission
Princeton

Kelowna Secondary Teachers' Association
Kelowna

School Taxpayers' Action Committee
Midway

B.C. Teachers' Association
Kelowna

Central Okanagan Teachers' Association
Kelowna

School District #23 (Central Okanagan)
Kelowna

Theresa White
Kelowna

Vernon Teachers' Association
Vernon

Carrier Sekani Tribal Council
Prince George

Prince Rupert District Teachers' Union
Prince Rupert

Burns Lake District Teachers' Association
Topley

Continuing Education, School District #57 (Prince George)
Prince George

Town of Fort Nelson
Fort Nelson

Quesnel District Teachers' Association
Quesnel

School District #28 (Quesnel)
Quesnel

Adult Education, Nechako
Nechako

B.C. Association of Continuing Education Administrators
Quesnel

School District #59 (Peace River South)
Dawson Creek

No Name
No Address

No Name
No Address

No Name
No Address

No Name
No Address

No Name
No Address

Invergarry Learning Centre
Surrey

Learning Disabilities Association of B.C.
Surrey

Parent Advisory Council School District #36 (Surrey)
Surrey

School District Continuing Education Directors' Association
Surrey

School District #36 (Surrey)
Surrey

Delta Teachers' Association
Delta

Gifted Children's Association of B.C.
Delta

Mike Garisto
Surrey

Traditional Learning Academy
Delta

School District #35 (Langley)
Langley

School District #38 (Richmond)
Richmond

Career & Community Education, School District #39
Vancouver

Heritage Christian School
White Rock

Growth Districts of B.C.
Coquitlam

Bonnie Keyworth
Langley

Ben Penner
Langley

Surrey-Green Timbers NDP
Surrey

Surrey Teachers' Association
Surrey

North Shore Mayors' Task Force
West Vancouver

Roy Sakata
Delta

School District #34 (Abbotsford)
Clearbrook

Langley Teachers' Association
Langley

Langley District Parent Advisory Council
Langley

Surrey Chamber of Commerce
Surrey

Carnegie Learning Centre
No Address

School District #92 (Nisga'a)
New Aiyansh

Queen Mary Elementary School Consultation Committee
Vancouver

Pacific Association for Autistic Citizens
Vancouver

UBC Education Administration Program
Vancouver

Burnaby Teachers' Association
Burnaby

Jeremy Dalton, MLA
West Vancouver

Lower Mainland Down's Syndrome Society
Surrey

School District #45 (West Vancouver)
West Vancouver

School District #39 (Vancouver)
Vancouver

North Vancouver Parent Advisory Council
North Vancouver

Council of Administrators of Special Education
New Westminster

City of Langley
Langley

Vancouver Teachers' Federation
Vancouver

School Tax Action Committee
Whistler

North Vancouver Teachers' Association
North Vancouver

Howe Sound Teachers' Association
Squamish

Canadian Actors' Equity
Vancouver

School District #44 Band and Strings Parents' Association
North Vancouver

Jack Stevens
Vancouver

The Laurel Group
Vancouver

B.C. Association for Community Living
Vancouver

Ken Abrahamson
No Address

Vancouver Labour Council
Vancouver

B.C. Association des Parents Francophones
Vancouver

B.C. Property Tax Reform Committee
Victoria

School District #64 (Gulf Islands)
Ganges

Canadian Citizens for Tax Reform
Victoria

Vancouver Island North Teachers' Association
Port McNeill

Jim Campbell
Saturna Island

School District #66 (Lake Cowichan)
Lake Cowichan

Victoria Home Learning Network
Victoria

South Vancouver Island Learning Disabilities Association
Victoria

Victoria Teachers' Association
Victoria

Bernard Gillie
Victoria

Parents of Deaf and Hard of Hearing Children
Victoria

Don Hamilton
Victoria

Victoria Confederation of Parent Advisory Councils
Victoria

Canadian Union of Public Employees, B.C.
Burnaby

School District #68 (Nanaimo)
Nanaimo

Victoria Chamber of Commerce
Victoria

Sooke Teachers' Association
Victoria

Glenn Marriott
Victoria

School District #61 (Greater Victoria)
Victoria

Cowichan District Teachers' Association
Duncan

Norman Preston, Victoria
College of Psychologists of B.C.
Saanichton

Friends of Spectrum
Victoria

Family Coalition Party of B.C.
Victoria

Jim Vance
Shawnigan Lake

School District #62 (Sooke)
Victoria

School District #72 (Campbell River)
Campbell River

APPENDIX 2

WRITTEN SUBMISSIONS, JUNE-AUGUST 1992

Vancouver University Colleges
Vancouver

Mrs. J. Howarth
Nanaimo

Ross Smith
Vancouver

Harry A. Willems
Kaleden

B.C. Property Tax Reform Committee
Colwood

School District #54 (Bulkley Valley)
Smithers

Robert Rankin
North Vancouver

Council of Administrators of Special Education
Victoria

Horst Brunsch
Coquitlam

Jack Kler
Penticton

Vancouver Island North Teachers' Association
Port McNeill

City of Dawson Creek
Dawson Creek

Kenneth Gordon School
Burnaby

School District #10 (Arrow Lakes)
Nakusp

Canadian Citizens for Tax Reform
Victoria

Linda Lucas, Teacher
Elkford

G.E. Moore
Kelowna

Gordon E. Lawley
Parksville

Cariboo Regional District
Williams Lake

Byron Price
Victoria

Russ Orser
Coquitlam

School District #70 (Alberni)
Port Alberni

City of Williams Lake
Williams Lake

Rodjer Dinesen
Surrey

Christopher A. Evans
Surrey

Phil Russell (Education Advisory Council)
Burnaby

Stoney Creek Community School
Burnaby

Duncan Cran Elementary School P.A.C.
Fort St. John

P.H. Connolly
Nanaimo

Town of Sidney
Sidney

Hector Hammerly
Burnaby

School District #24 (North Thompson)
Kamloops

Judy and Robert Wildgrube
Surrey

Jacob Romeyn
Langley

Norman Robinson
Burnaby

Stephen Fairbairn
Elkford

Association of Visually Impaired Students
Vancouver

Corine Riemer
Vanderhoof

The Laurel Group
Vancouver

School District #32 (Hope)
Hope

Gloria V. Allen
North Burnaby

Sea View School Staff
Port Alice

The Corporation of the Village of Alert Bay
Alert Bay

C. Inge Williams
Vancouver

Mrs. P. Foot
Duncan

Gloria Inkster
Surrey

Association des Parents Francophones de la colombie-brittanique
Vancouver

Edna den Breejen
Enderby

R. Jean Menard
Kelowna

No Name
No Address

Michael Linley
Peachland

J.A. Robertson
Nanaimo

Taylor Elementary Parent Advisory Council
Taylor

Jakob Knaus
Sechelt

Cameron and Joanne Brown
Vancouver

B.C. Teachers for Association
Abbotsford

W.D. Ferris Elementary School
Richmond

Kryl Faulk
Enderby

Enderby Christian School
Enderby

K.L.O. Secondary School
Kelowna

No Name
No Address

Lisa Yaroshuk
Surrey

R. Brackenridge
Brentwood Bay

Olive Boettcher
Surrey

School District #71 (Courtenay)
Courtenay

A.E. John Thompson
Victoria

Ken and Bev Westlake
Kelowna

Keith Hawkins
No Address

Paul Berthon
West Vancouver

Richard Sharpe
Kelowna

Metro and Willy Yaroshuk
Vancouver

Jim Wilson
Coquitlam

Twin Rivers Elementary School
Castlegar

Todd Patrick
Maple Ridge

School District #63 (Saanich)
Saanichton

Village of Nakusp
Nakusp

Ruth A. Orr
Vanderhoof

William A. Tonelli
Langley

Dave Wiebe
Enderby

Jeff Schroeder
Surrey

Roger and Gail Helland
Kelowna

Merle McKnight
Golden

Edward R. Baran
Yarrow

Peter Falk
Richmond

Milt and Andrea Peterson
Kelowna

Gerald Van Woudenberg
Langley

Irene Walker
Kelowna

Philip B. Smith
Surrey

Franz Steffen
Langley

Martha Steffen
Langley

Rosalind Watts
Langley

Jerry Suderman
Armstrong

Greater Victoria Teachers' Association
Victoria

B.C. College of Teachers
Vancouver

Henry J. Hiebert
Vernon

Kenneth H. Abramson
Burnaby

Reg Bennett
Penticton

Vancouver District Parent Representatives
Vancouver

B.C. Arts in Education Council
Vancouver

School District #75 (Mission)
Mission

Colleen Evans
Surrey

Mrs. Severson
Surrey

B.C. Consortium of School Boards for Successful Immigration
Richmond

Family Coalition Party of B.C.
Victoria

B.C. Council of Administrators of Special Education
Vancouver

No Name
No Address

School District #88 (Terrace)
Terrace

Prince George District Teachers' Association
Prince George

Greater Vancouver Regional District
Burnaby

Susan Cairns
Cobble Hill

Howe Sound Teachers' Association
Squamish

Janelle Park
Nanaimo

Nanaimo District Teachers' Association
Nanaimo

Cowichan District Teachers' Association
Duncan

Parents of Children with Special Needs
Vancouver

School District #86 (Creston-Kaslo)
Creston

School District #72 (Campbell River)
Campbell River

Dorothy G. Paterson
Langley

Carlyn Dodge
Kelowna

City of Langley
Langley

Teena Gowdy
Kelowna

Maxine Redekop
Surrey

Shannon Luck
White Rock

Anne Matthies
Clearbrook

Mrs. B. Keyworth
Langley

Ben Penner
Langley

City of Kamloops
Kamloops

Mr. and Mrs. E.C. Prentiss
Langley

Usha Honisch
Chemainus

Lewis and Dawn Hill
Abbotsford

K. Penner
Langley

Mr. and Mrs. D. Carlyle
Golden

School District #29 (Lillooet)
Lillooet

C.U.P.E. Local 723
Campbell River

Vernon and District Association for the Mentally Handicapped
Vernon

City of Fort St. John
Fort St. John

Langley Teachers' Association
Langley

School District #45 (West Vancouver)
West Vancouver

Allison Bowles
Fruitvale

Glen Eden School
Delta

Langley District Parent Advisory Council
Langley

School District #40 (New Westminster)
New Westminster

Windermere District Teachers' Association
Windermere

Joyce Peters
Aldergrove

North Vancouver Band and Strings Parent Association
North Vancouver

Dave Gale and Heidi Isberg-Gale
Shawnigan Lake

Fraser Academy
Vancouver

Mary Findlay
Gibsons

Parents for Reasonable Education Funding
North Vancouver

School District #68 (Nanaimo)
Nanaimo

B.C. School District Secretary-Treasurers' Association
Vancouver

Fort Nelson-Liard Regional District
Fort Nelson

Cowichan Valley Association for Community Living
Duncan

Nelson District Teachers' Association
Nelson

Prince Rupert District Teachers' Union
Prince Rupert

School District #49 (Central Coast)
Hagensborg

Jim and Marie Rolfe
Kelowna

School District #4 (Windermere)
Invermere

Kamloops and District Teachers' Association
Kamloops

Liz Kellough
Powell River

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APPENDIX 3

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School District #40 (New Westminster)
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School District #11 (Trail)
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School District #39 (Vancouver)
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School District #3 (Kimberley)
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APPENDIX 4

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BUILDING
PARTNERSHIPS:
A FINANCE
SYSTEM
FOR PUBLIC
SCHOOLS

Section Two

Financing Public Schools: Issues & Options

A Discussion Paper

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INTRODUCTION

ONE ◀

TERMS OF REFERENCE

On June 3, 1992, the Honourable Anita Hagen, Minister of Education and Minister Responsible for Multiculturalism and Human Rights, announced the creation of the Education Funding Review Panel.

The Panel's task is to review the system of financing education in B.C. and to make recommendations to the Minister on how to make the school finance system more accountable and affordable so that all parties involved in the delivery and financing of public education will view the system as fair, stable, predictable, and understandable.

The names of the four Panel members are listed in Appendix 1.

THE PURPOSE OF THIS DISCUSSION PAPER

This discussion paper outlines the issues in education financing and options for resolving them. The paper will be part of the process of public consultation. At the regional meetings it will provide a framework for discussion of the issues and options in education financing.

The paper is based in part on the more than 300 written submissions that the Panel has received since June. It also includes ideas and information supplied by the Advisory Committee and the Committee of Elected Officials. (Membership of these committees is listed in Appendix 1.)

An Advisory Committee consisting of 13 education partners met four times throughout the summer to provide advice to the Panel on issues, options, and areas of agreement. The Panel also met with a Committee of Elected Officials throughout the summer to obtain information and feedback on broad government policies and initiatives.

The paper begins with a description of the current finance system. The next two chapters outline the concerns expressed in written briefs and explain the role and characteristics of an education finance system. Chapters 5, 6 and 7 identify and discuss major issues in education finance. The final chapter indicates where there is general agreement and where further discussion is required. The final chapter also suggests various options for the areas that require further discussion.

This discussion paper does not cover all issues relevant to the discussion of education finance. For example, it does not deal with the issues of capital expenditures and tools for improving accountability. The Panel continues to work on these issues in order to include them in the final report.

THE SCOPE OF THE REVIEW

The review is looking at sources of revenue for school boards, the distribution of provincial education funds, and the roles and responsibilities of the provincial government and school boards as they relate to a finance system.

The Panel has assumed that there will be no changes in the method of governing public school education involving locally elected school boards. Throughout its deliberations, the Panel has operated on the assumption that there will be no changes in the current structure and mechanisms for collective bargaining.

THE PROCESS

On June 9, 1992, ads appeared in all weekly and daily newspapers in B.C. asking for written briefs from interested parties. The Panel also wrote to over 2,000 organizations and individuals asking for submissions.

A series of seven regional meetings will be held from September 30 to October 19, 1992, to give the public and education partners in the regions an opportunity to speak with Panel members directly about the issues and options presented in this discussion paper. Meeting dates, locations and times are listed in Appendix 2.

After the regional meetings, the Panel will prepare a final report incorporating feedback from the public consultation process. The Panel will submit its final report and recommendations to the Minister of Education and Minister Responsible for Multiculturalism and Human Rights by November 16, 1992.

TO REGISTER YOUR INPUT

If you would like to attend one of the regional meetings, please pre-register by contacting the Education Funding Review Office in Victoria: Telephone, 953-3152; Fax, 953-3151.

If you cannot attend but would like to comment, please use the Response Form at the back and ***send your ideas to the Education Funding Review Office by October 20, 1992.***

TWO ◀

HOW IS PUBLIC SCHOOL EDUCATION FINANCED IN B.C.?

ROLES AND RESPONSIBILITIES

Under the *School Act*, the provincial government and 75 locally elected school boards share responsibility for managing public schools. The province and school boards are co-governors of the school system.

The provincial government is responsible for:

- establishing the goals and objectives of the system.
- setting the common curriculum.
- monitoring and evaluating the performance of the school system.

School boards are responsible for:

- the day-to-day operation of schools.
- implementing the provincial curriculum and establishing the local curriculum.
- ensuring that school programs are sensitive to local interests and expectations.

Except for minor local sources of revenue, school boards get all of their operating and capital funding from the provincial government. School boards may seek additional revenue through a tax on residential property, but only if they receive the prior approval of taxpayers through a referendum.

School boards engage in collective bargaining with their staff, and school district employees have essentially the same collective bargaining rights as other organized employee groups in the province. The scope and timing of bargaining are subject to negotiation between the parties. Employees have the right to strike, and school boards have the right to lock out their employees.

Provincial legislation establishes the legal framework for collective bargaining in B.C., but the provincial government is not involved directly in bargaining with school district employees.

PROVINCIAL FUNDING

Operating Grants

During the process of preparing its annual budget the province allocates an amount of money for operating public schools in the coming school year. This amount is called the "block of funds."

After determining the size of the block of funds, the province then decides how those funds are to be distributed among the 75 school districts.

The size of the annual block of funds is equal to the amount provided in the previous school year, plus:

- an amount to take account of changes in enrolment.
- an "economic adjustment factor" to allow for cost increases.

- an amount to pay for adjustments to the provincially mandated education program.

The provincial government has complete discretion over the economic adjustment factor, which is expressed as a percentage increase over the previous year's budget. Because of competing demands on provincial revenues, the government may choose to increase school funding by a small percentage, even though costs may be increasing at a rate which exceeds the economic adjustment factor.

Table 2.1 shows the annual increases in operating grants since the introduction of block funding. It also shows the annual percentage increase in funding and the rate of increase allowed for economic adjustment. The annual percentage increase in operating grants is always larger than the economic adjustment factor because of additional increases for enrolment and changes in the provincially mandated program. Annual increases in enrolment have averaged 3.5 percent over the past few years.

For the 1992/93 school year the provincial government is providing just over $3 billion in operating grants to school districts. This represents an average of $5,661 for each pupil enrolled full-time in the public school system.

TABLE 2.1 **PROVINCIAL OPERATING GRANTS (BLOCK FUNDING)**

School Year	Operating Grants (million)	Percent Change	Economic Adjustment Factor
1989/90	$2,416.1		
1990/91	$2,675.5	10.7%	6.17%
1991/92	$2,903.3	8.5%	3.75%
1992/93 (est.)	$3,090.9	6.5%	2.40%

Debt Servicing Grants

To purchase major capital assets such as school buildings and school busses, school boards must obtain provincial approval. To pay for these capital expenses, school boards borrow money and repay it over a number of years (similar to a mortgage on a home). The province gives school boards grants to service these debts. The grants cover the annual payments on loans for capital expenses.

Table 2.2 shows the rapid increase in debt servicing grants over the past three years due to growth in the annual capital program from $250 million in 1989/90 to $582 million in 1992/93.

TABLE 2.2 DEBT SERVICE GRANTS

School Year	Debt Servicing Grants (million)	Percent Change
1989/90	$177.3	
1990/91	$204.0	15.1%
1991/92	$240.7	18.0%
1992/93 (est.)	$287.2	19.3%

SOURCES OF REVENUE

The provincial government uses three sources of revenue to pay for grants to public schools:

- general taxation (i.e., income taxes, sales taxes and resource taxes).
- non residential property taxes.
- residential property taxes.

When drawing up its annual budget, the provincial government decides how much it will need from each of these sources to pay for public schools. Table 2.3 shows the proportion from each source in 1992/93.

TABLE 2.3 SOURCES OF REVENUE - 1992/93

General Revenue	69.9%
Non residential Taxation	18.3%
Residential Taxation (after subtracting the home owner grant)	11.8%

Property taxes are calculated using the taxable value of property as set by the B.C. Assessment Authority. School property taxes are one of many types of property tax that may appear on a taxpayer's annual bill. Others include:

- municipal taxes.
- regional district taxes.
- improvement district taxes.
- library district taxes.
- transit taxes.
- hospital taxes.

Property tax notices distinguish between the school tax rate set by the provincial government and the school tax rate set through referenda by local school boards.

Home owners get property tax relief through the home owner grant. For 1992 the grant is a flat $450 for most home owners and $720 for seniors and disabled persons. Because the grant reduces the amount of school tax, the provincial government views the home owner grant as part of its contribution to school funding. However, if a person's home owner grant is more than the school tax, the taxpayer may use the excess to offset other property taxes.

The home owner grant cannot reduce the total of all property tax below $100 for seniors and $350 for all other taxpayers.

Although the provincial government sets the rate of the school property tax, there is not necessarily a connection between school property tax rates and provincial grants to school districts. An increase in the provincial budget for school funding may not be related to an increase in property taxes in a particular school district.

Everyone living within a particular school district pays the same rate of residential school tax, but the rate varies from district to district. By varying the rate, the government can moderate the effect of large differences in assessed value in different areas of the province.

If the residential school tax rate were the same throughout the province, people who live in a high assessment area such as the Lower Mainland would pay much higher taxes than people living in low assessment areas. The system of variable rates reduces the sharp contrast between the amount of tax people would pay in different areas, but it does not completely eliminate the disparities.

Even though the tax rate varies, someone living in an "average" home in Vancouver pays more in school taxes than someone living in an "average" home in Prince George because property is worth more in Vancouver. Table 2.4 illustrates this point by showing examples of the variation in school tax rates and school taxes paid across selected districts.

TABLE 2.4 VARIATION IN PROVINCIAL SCHOOL TAXES ON RESIDENTIAL PROPERTY

	Tax Rate $ per $,000	School Taxes * Paid on an "average" home
North Thompson	14.8	$450
Peace River North	10.8	482
Prince George	8.4	552
Kamloops	7.8	518
Central Okanagan	5.7	577
Coquitlam	4.7	750

*before subtracting the homeowner grant

Property taxes are raised on a calendar-year basis. However, the government does its budgeting on the basis of a fiscal year that runs from April 1 to March 31. This difference can make it difficult to interpret information about tax revenue from different sources.

Non residential tax rates are different for each class of property (major industry, light industry, farm, forest land, etc.) but are the same for each district.

DISTRIBUTION OF PROVINCIAL GRANTS

For a variety of reasons, the cost of delivering the provincially mandated education program varies from district to district. For example, sparsely populated rural districts usually have smaller schools and smaller class sizes than more densely populated urban districts. As a consequence, such districts tend to have higher than average instruction costs. To ensure equity of educational opportunity throughout the province, operating grants to school districts must reflect these differences in cost.

The distribution of provincial grants is based on a detailed set of calculations that has been labelled the "fiscal framework." The framework consists of a range of service levels and cost factors that together determine the cost of delivering the provincially mandated education program in each school district.

The method of calculation is best illustrated with an example. Table 2.5 shows how the funding of the early intermediate program is calculated. It starts with a level of service established by the provincial government: that is, the average number of students per class. In this example, the service level represents an average class size of 26 students. The funding of each class includes the average teacher salary, including benefits (such as extended health benefits) and statutory payments (such as pensions and unemployment insurance). In addition, an amount is provided to cover the cost of classroom supplies. With this formula, the cost of the provincially mandated education program will vary from district to district because the number of students enrolled is different and because average teacher salaries are not the same.

TABLE 2.5 **FUNDING THE EARLY INTERMEDIATE PROGRAM (Grades 4-7)**

Service Level

One teacher for every 26 students enrolled in the program (excluding students in special education programs).

Cost Factors

Funding of a class = average teacher salary + benefits + statutory costs + allowance for classroom supplies.

The fiscal framework encompasses more than 50 different services organized into five broad areas:

- instruction.
- district administration.
- operations and maintenance.
- transportation.
- other.

The funding of each service is calculated in more or less the same way as in the example of the early intermediate program, but for many services, the formula is more complicated. Table 2.6, for example, shows the service level of the English as a Second Language (ESL) Program, which is somewhat more complex than the service level in the earlier example. The service level for the ESL program acknowledges the need for smaller classes and the additional cost involved when teaching ESL students.

TABLE 2.6 **THE ELEMENTARY ESL SERVICE LEVEL**

(For English as a Second Language programs in primary to grade 7)

For the first 12 students: 1 teacher for every 12 students

For the remaining students: 1 teacher plus 0.5 teaching assistant for every 21 students

Differences in enrolment and average teacher salaries are important reasons for the differences in the cost of public education among various school districts.

Because teachers' salaries are based on experience and qualifications, average teacher salaries can vary considerably from district to district depending on the mix of teachers employed in the district. In some districts average teacher salaries are more than five percent above the provincial average because most of the teaching staff are more experienced, more highly qualified, and paid at a higher salary. Other districts have a large proportion of recent graduates on staff, and their average salary is well below the provincial average.

Other important differences among school districts include:

- ***age distribution***. Districts with a high proportion of students in the secondary grades have higher costs because it is more expensive to provide the wide range of courses required at high school than the more limited curriculum in elementary school.
- ***number of special needs students***. Districts with a higher proportion of special needs students, including aboriginal and English as a second language students, have higher costs. Because special needs students require more support than regular students, it takes more resources to meet their needs.

- ***number of schools in the district.*** Because of geography, some districts have a large number of relatively small schools with low enrolment and smaller than average class size. These districts have higher per pupil costs than more compact districts with larger schools.
- ***transportation.*** Rural districts tend to have higher school bussing costs than urban districts.
- ***building operations and maintenance.*** The cost of operating and maintaining school facilities varies with the age of buildings and the climate.

The fiscal framework attempts to take into account all of these differences and generates a recognized cost for each of the 75 school districts. The provincial government uses these recognized costs to calculate each district's share of the block of funds.

The result is wide differences in funding between districts. These differences are most obvious when expressed in terms of "funding per pupil." Table 2.7 illustrates the point by comparing the funding per pupil in two districts, Fort Nelson and Surrey. The figures are broken down into the five categories of funding used in the fiscal framework. In each category, the recognized costs in Fort Nelson are considerably higher than in Surrey. Fort Nelson is a low-enrolment district in a northern location of the province with a harsh climate, and with a high proportion of aboriginal students. By contrast, Surrey is a high enrolment district in a suburban location with a mild climate, and with an average proportion of special needs students.

TABLE 2.7 **COMPARISON OF FUNDING TO INDIVIDUAL SCHOOL DISTRICTS ($ PER PUPIL)**

	Surrey	Fort Nelson
Instruction	$4,117	$5,078
District Administration	113	414
Operations & Maintenance	629	925
Transportation	53	197
Other	124	174
TOTAL	$5,036	$6,788

Some districts receive special purpose grants in addition to the funds they receive on the basis of the fiscal framework. The districts that receive special purpose grants had higher than average local spending and taxation prior to the introduction of block funding, and the grants were started as a transition measure to allow these districts time to adjust to block funding. Special purpose grants were supposed to end in 1992/93, but they were continued this year because of the difficult fiscal situation which many school boards faced.

The fiscal framework has determined the distribution of provincial grants for the last eight years. Each year a technical committee composed of district superintendents and secretary-treasurers has reviewed the structure of the framework and its various calculations. In most years, the Minister of Education has accepted many of the changes which the committee has recommended and implemented them in the following school year.

MANAGEMENT OF FUNDS

School boards prepare their budgets in the spring for the following school year (July to June), and they must complete their budgets by late April. Recognizing this deadline, the province announces the amount of the block of funds in January and detailed estimates of the grant for each school district in February.

Because the grants are announced in February, they are based on each district's projected enrolment for the next school year. In September, the actual enrolment is compared to the projected enrolment, and the district's grant is adjusted. This means that school boards must adjust their operations in September to reflect actual enrolment and actual grants from the province.

Within the constraints of the provincial curriculum and collective agreements with their staff, school boards can for the most part allocate their money in any way they deem appropriate. The province puts constraints on the use of some elements of the grant. For example, funds are targeted in a few areas such as school accreditation, textbooks and other learning resources, and minor capital projects. In 1991, further restrictions were placed on budget allocations for certain special education categories.

When a school board sets its budget, it may or may not know all the costs it will face in the coming school year. For example, if a collective agreement expires at the end of the current school year and a new one has not been negotiated, the new budget must allow for a possible increase in salaries. If the estimated increase is too low, the school board will have to adjust other costs to ensure that the total budget does not exceed the district's revenues for the year.

If they choose to, school boards may enter into multi-year collective agreements. However, they cannot know for sure how much money the provincial government will provide in future years.

School boards may not run deficits unless they have prior approval from the province. If they have a surplus of money at the end of the year, they may carry it forward to the next school year.

When the school year is over, each school board must prepare audited financial statements and submit a copy to the province.

Table 2.8 shows that school boards spend most of their money on staff salaries and benefits. Items other than staff costs account for only 11.2% of operating budgets.

TABLE 2.8 SCHOOL DISTRICT BUDGETING ON SALARIES AND SUPPLIES

Teacher Salaries	55.4%
Non-teaching Staff Salaries	18.9%
Substitute Staff Salaries	1.9%
Staff Benefits and Allowances	12.7%
Services and Supplies	11.2%
	100.0%

Table 2.9 shows how school boards allocate their budgets by function. It shows that almost 80% of funds are devoted to school-based instruction. The costs of operation and maintenance are the second largest spending item.

TABLE 2.9 SCHOOL DISTRICT BUDGETING BY FUNCTION

Instruction	79.2%
District Administration	4.0%
Operations and maintenance	13.0%
Transportation	2.5%
Other	2.3%
	100.0%

THREE ◀

WHY IS SCHOOL FINANCE AN ISSUE?

The interested public has many concerns about the current system of financing public schools. The Panel has heard these concerns from people who have submitted written briefs and from the Advisory Committee. Although we recognize that we cannot do justice to all the concerns that have been expressed, we have attempted in this section to summarize the common themes that emerge from these comments.

A SYSTEM IN CONSTANT CHANGE

Over the past ten years, the only constant in education finance has been change. Every two or three years, the province has substantially redesigned the system. Table 3.1 gives some examples of the major changes since 1982.

TABLE 3.1 **EXAMPLES OF CHANGES IN THE SYSTEM OF SCHOOL FUNDING**

1982	Removal of the non residential tax base from school boards.
1982	Provincial limits on school budgets. Elimination of local taxing authority.
1984	Introduction of the fiscal framework.
1986/87	Return of taxing authority to school boards (residential taxes only).
1988/89	Full collective bargaining rights to teachers.
1990/91	Introduction of block funding. Taxing authority of school boards restricted to funds that can be raised by referenda.
1990/91	Introduction of the supplementary home owner grant.
1992/93	Elimination of the supplementary home owner grant.

All these changes were designed to improve the system, and many have been in response to earlier concerns expressed by the public and education partners. However, it is clear that many observers see the pace of change as counterproductive:

> *During the past few years there have been so many changes to the Block of funding and Targeted Funds that it not only is difficult to keep up with the multitude of changes but extremely difficult to try and explain them to the public and employees. Some stability is long overdue.*

Many observers are calling for a period of stability in school finance, and they point to some significant costs of change. These include:

- the time and effort involved in designing, understanding, and implementing the changes.
- the perception that there are "winners and losers" from each of the changes and the backlash which this creates.
- the fact that a change which solves one set of problems often introduces a new set of problems that no one anticipated.
- the fact that for the most part, the changes have been piece-meal.

Because most of the changes have been introduced gradually, the old system is always being phased-out rather than being replaced by something entirely different. This means that the system is constantly in a state of transition. It never settles down to the point where the players involved really know and understand its main features and can plan their future actions with some confidence.

A DEBATE OVER FUNDING LEVELS

For some observers, most of the concerns about education finance come down to one issue: the perception that education is underfunded, both in comparison to other provinces and in relationship to the public's expectations of the school system.

Others are less concerned with the overall funding level than with the perception that the present system of distributing the block of funds is unfair to some school districts. These observers point to differences between districts: some are hiring staff; others are experiencing lay-offs.

> *If the current funding system is equitable, then why can some school districts reach salary settlements well beyond the economic adjustment factor and many other districts can neither maintain the present service levels nor provide for any salary increases.*

A number of briefs have raised questions about the fairness of the distribution system. Their criticisms have spotlighted four areas of concern.

1. ***Transition funding has not been phased out on schedule***. There has been a delay in the phasing-out of special purpose grants, and therefore some districts continue to receive funds above and beyond what they would be entitled to under the terms of the fiscal framework. Some observers see the continuation of special purpose grants as perpetuating inequities between districts. Others view the attempt to equalize the level of service in all school districts as reducing the quality of education in the province to "the lowest common denominator."
2. ***Similar districts have different funding levels***. Districts that appear to have similar needs nevertheless receive different amounts of money. Under the present distribution system, school districts that seem to be on a par with one another may not be receiving equal amounts per pupil.

These disparities are difficult to understand unless you understand the nature of the differences between these districts. Table 3.2, for example, compares the funding level for Coquitlam and Greater Victoria, two urban districts with similar overall enrolment. Greater Victoria receives a higher level of funding primarily because it has a greater proportion of children with special needs and because its school buildings are older and more expensive to operate and maintain. However, there is debate about whether these differences are appropriately reflected in current funding levels.

3. ***Bias against rapidly growing districts.*** Some people believe that the present system works to the disadvantage of districts that are growing rapidly. These districts have indicated their concern with the fiscal framework. They believe it is biased against them in three ways.
   - It does not take into account the special costs that growing districts incur: e.g., the costs involved in planning new schools.
   - It assumes that there are "economies of scale" in the operation of school districts which do not exist in practice.
   - It does not reflect enrolment growth during the school year.

   Although the fiscal framework has been changed to address some of these issues, growing districts continue to voice their concern over the design of the framework.
4. ***Some districts have deficits while others have surpluses.*** Some districts appear to be having difficulty managing within their budgets this year while others do not, and this raises the question of possible inequities in the distribution system. However, school boards have considerable discretion over how they manage their financial affairs, and the observed differences may be attributable to the way in which they have planned for and adjusted to block funding, rather than to the distribution system.

TABLE 3.2 COMPARISON OF SIMILAR DISTRICTS ($ PER PUPIL)

	Coquitlam	Greater Victoria
Instruction	$4,206	$4,320
District Administration	119	122
Operations & Maintenance	620	765
Transportation	41	66
Other	132	173
TOTAL	$5,118	$5,446

In contrast to the concern about underfunding, some briefs have expressed concern about the escalating cost of the education system. These observers do not see the system as underfunded. Rather, they question whether school boards are making the most effective use of the money they have.

Some of those who would like to see the province put more money into education also question whether school boards are making the best use of their money. For example, some commentators have expressed concern about the proportion of their resources that school districts devote to administration compared to the proportion devoted to classroom instruction.

Many parents and taxpayers hear the debate over school funding but do not know whom to believe. This adds to their sense of confusion about the system:

> *School financing has become so complicated that only a handful of individuals can comprehend it. Therefore, when partner groups are asked to provide "meaningful input," we either throw up our hands and leave the decision-making to those with the knowledge or we make submissions requesting smaller class sizes, increasing the ratio of elementary counsellors, teacher librarians, etc. to students, more support for music programs, gifted education, and the list goes on.*

LOCAL AUTONOMY IS AN ISSUE

The present system of funding has largely prevented school boards from spending more than the province provides in grants. In some people's opinion, this lack of local control over revenue has severely limited the ability of school boards to respond to local issues and establish innovative education programs. One brief expressed the point this way:

> *Local community control over and interest in the operation of public schools is a cornerstone of our democratic system. The restoration of supplementary taxing powers would match districts' ability to develop and implement innovative local programs with an ability to raise funds in support of these programs. In addition to solidifying democratic control at the local board level, such an arrangement would return an important source of dynamism that fiscal centralization has robbed from our schools.*

Others question the role of school boards and their track record in the managing of public funds. A large number of briefs have said that parents should have more choice in the education system and more control of the use of funds.

A CONFUSING SYSTEM

One of the most common concerns about the current system is the fact that most people do not understand the way it works and what it is trying to achieve. And this sense of confusion is not limited to parents and taxpayers who have little direct involvement with the details of the funding system. It extends to many of the school trustees, principals, and teachers who are heavily involved in delivering education.

Part of the confusion comes from the frequency with which the system has changed. A more stable system would be easier to understand. Some of the confusion comes from the inherent complications in a system of school funding that involves two levels of government. It is often hard to know who is responsible for a particular decision.

Another source of confusion is the "mixed messages" that the public receives about the funding of the school system. One brief described this confusion as follows:

> *Many British Columbians were puzzled this last spring to witness another round of school lay-offs and cutbacks despite the fact that the Education budget received the largest percentage increase allotted to any provincial ministry.*

Confusion also results from the complexity of many aspects of the system, including the fiscal framework distribution system and the methods of determining tax rates. Although the system is not always as confusing as it first appears, it is often not easy to get answers to questions, and the answers, when they are available, are not always clear and in language that is easy to understand.

DOUBTS ABOUT PROPERTY TAXATION

Many observers expressed concern over the way schools are funded. Most of these concerns focus on the use of property taxes to pay for schools:

> *The cost of education should not be borne in part by property owners. There simply is not a reasonable connection between a property owner or landlord and school.*

Some see little connection between property and education and believe that education should be funded from other revenue sources. Others focus on the issue of equity. They do not see a direct relationship between property values and ability to pay; they question the feasibility of designing a fair system around the property tax base.

Others accept the role of property taxes in funding education but are concerned that the burden of taxation has shifted from non residential to residential taxpayers.

AN UNSTABLE SYSTEM

During the last decade the school system has experienced sharp swings in funding and in levels of service. Periods of contraction and restraint havc followed periods of rapid expansion. In the past few years, the number of teaching positions has expanded substantially in one year and declined substantially in the next.

Many observers question the necessity for this pattern. While accepting that we live and operate in an open economy, they see no reason why a key social service such as education should experience the "boom and bust" cycles of the international market place.

These ups and downs in service create disruption in the schools and sap the morale of teachers and others who are responsible for ensuring that the learning experience in our schools is of a high-quality. Looking at this past pattern, many observers are calling for greater stability and predictability in the funding system:

> *There needs to be a process that establishes long-term financial stability for the education system. Many of the reductions made this year are only a stop gap. If additional funds are not forthcoming next year, then other services will have to be reduced…There is not much incentive to plan new curriculum when you do not know if there will be adequate resources to implement them.*

OTHER ISSUES

Some briefs raised issues which are outside the scope of this review. For example, many expressed dissatisfaction with the funding of independent schools and the structure of collective bargaining within the public school system.

FOUR

WHAT KIND OF FINANCE SYSTEM DO WE WANT?

People hold a wide variety of opinions about the flaws in the present system of financing public education. The Panel has received a great many suggestions, often conflicting, for making improvements. Before examining some of these suggestions, we need to know what characteristics we want in a finance system. Unless we are clear about what we want to achieve, it will be hard to evaluate ideas for changing what we have.

This chapter examines the desirable characteristics of an education finance system and looks at some of the choices involved in designing a system that will do what we want it to do. This discussion sets the stage for an examination of specific policy options in subsequent chapters.

THE ROLE OF AN EDUCATION FINANCE SYSTEM

At its most basic level, education finance is concerned with a few, very straightforward questions.

- ***The spending of funds.*** Who is responsible for spending the money? Who decides how much to spend and how to spend it?
- ***The raising of funds.*** Where should the money come from to pay for public education?
- ***The distribution of funds.*** What is the best way to distribute the money from the province among school districts?
- ***The management of funds.*** How can the finance system provide incentives for the efficient and effective use of public funds? What are the mechanisms for holding the people or institutions that spend the money accountable for their decisions?

THE COMPLEXITIES OF THE PRESENT SYSTEM

On the surface these questions seem relatively uncomplicated. Why then is the financing of education such a contentious issue? Part of the answer lies in the inherent complexities of our school funding system.

- ***Shared Responsibilities***

  When two levels of government are involved in delivering the same service, people become confused about the roles and responsibilities of both governments, and it is then hard to hold either one accountable for its decisions.

  This problem is not unique to the school system. It is true for all situations involving more than one decision-making authority. However, the problem is more pronounced in education because the provincial government is heavily involved in defining and funding the service, but school boards are responsible for delivering it. In British Columbia, local governments at the municipal and regional levels have far more autonomy than school boards in regard to the services they provide, but they are able to fund the vast majority of their costs through their own revenue sources, rather than through provincial grants.

- ***A Shared Tax Base***

  Confusion and tension are inevitable when several governments share the same tax base. In B.C. many levels of government share the property tax base: the province, school districts, municipalities, regional districts, and a number of others. As long as two or more governments are using the same tax base, taxpayers will have difficulty separating responsibility for tax increases, and the governments involved will come into conflict over the fair way to share a limited tax source.

- ***A Strong Emphasis on Equity***

  One of the overriding objectives of school funding is to help ensure equity of educational opportunity throughout the province. To achieve this objective, the finance system has to recognize a variety of local conditions that affect each school board's ability to deliver a common standard of service. This means that the finance system must go to great lengths to recognize and compensate for the large number of differences among districts. To do this, the system must inevitably become more complex than most other areas of government finance.

- ***High Visibility***

  The public school system receives much more attention than other areas of public policy because it touches the lives of so many people: students, parents, grandparents, employers, and taxpayers. We are all familiar with the subject because we have all attended school. Many other areas of public policy and finance receive far less public attention because they do not directly affect such a large cross-section of society.

For all of these reasons the design of a suitable school finance system is neither simple nor straightforward. It is important, therefore, to begin the task of sorting through the many alternatives by stating clearly the characteristics we would like to see embedded in an education finance system.

DESIRABLE CHARACTERISTICS OF AN EDUCATION FINANCE SYSTEM

We want to design an education finance system that has the following characteristics.

1. ***Understandable and Accountable***
   - Parents and taxpayers know who is responsible for decisions about raising money and spending it.
   - The relationship between taxation and spending is clear. (E.g., "Why did my school taxes go up by 20 percent this year?")
   - The link between changes in service (such as class size or number of teachers) and financial decisions by the various partners in the system is clear.
   - Disparities in funding between school districts have an obvious relationship to the differences in the characteristics of the districts.
   - The persons who use public funds have to report on how they used the money.
2. ***Stable and Predictable***
   - The "rules of the game" remain substantially unchanged from year to year, and if changes are necessary, people know about them well in advance.
   - Changes in service are moderate and even.
   - Planned changes in service (e.g., a new curriculum) proceed only if any funding required to implement the changes is also available.
   - School boards have a reasonable period in which to adjust to changes in funding or cost.
3. ***Fair***
   - Students throughout the province have access to a comparable level of educational service.
   - Taxpayers in similar circumstances pay similar levels of tax, and taxpayers with a greater ability to pay, pay more.
4. ***Adequate and Affordable***
   - The system provides sufficient funds to deliver the prescribed level of service.
   - The system does not create an unacceptable burden on taxpayers.
5. ***Flexible and Adaptable***
   - School boards have some flexibility in using funds to tailor programs to local conditions.
   - Both levels of government have the flexibility to make education better and more cost effective through innovative programs and strategies.

NO DESIGN WILL BE PERFECT: CHOICES HAVE TO BE MADE

No system will have all the characteristics we consider desirable. In creating a finance system, we have to choose between alternatives, and that often means sacrificing one desirable characteristic for another. For example, we may have to choose between fairness and local autonomy. Allowing school districts the discretion to provide special programs over and above the core program allows for innovation and excellence at the local level. This may result in "lighthouse" districts whose innovations in programming will "light the way" for other districts to follow. However, local discretion in programming also challenges the principle of equality of opportunity in education. The finance system must strike a balance between the conflicting objectives of fairness and autonomy, and people will always disagree about where to draw the line.

The design of a finance system cannot remove the necessity for difficult policy choices. For example, the amount of money the government allocates to education is a political decision that seeks to strike a balance between what is desirable and what is affordable. There is nothing inherent in the design of taxes and expenditures that can say how much we ought to spend. A well-designed finance system can help clarify policy issues, but it cannot remove the tension between those who would like to see more spending on education and those who would prefer to see other uses of public funds.

We know there is a strong demand to improve the system for financing education. But we cannot hope to avoid all debate or gain complete consensus on the design of a new system. There is no simple answer.

This paper lays out a range of alternatives for the public to consider, rather than a single option. The challenge is to identify those aspects of the system that are in most need of change and to develop as much consensus as possible around the most promising alternative.

ROLES AND RESPONSIBILITIES

FIVE ◀

The provincial government and the 75 locally elected school boards are co-governors of the school system in British Columbia today. In this chapter we raise a number of issues concerning how the financial responsibilities are shared between the province and school boards and also between the province and parents.

There is a widespread agreement that all students in the province should have equal opportunity with respect to education, regardless of how much money they have or where they live. In practice, this means that all students should be guaranteed access to a core education program no matter how poor or wealthy their local school district may be. While it is generally understood that a core education program is one that provides an adequate or reasonable level of education, we appreciate that the issue of how to define the core is very difficult. One of the primary responsibilities of the provincial government is to define the core (with the assistance of the education partners) and to ensure equal access to the core program.

There is also general agreement among Advisory Committee members that school boards need to have some flexibility to respond to local conditions and local needs. Where school boards can provide special programs over and above the provincially recognized or core program, there is the potential for innovation and excellence at the local level.

The issues in this chapter relate to the balance between these conflicting objectives of equality of educational opportunity and local flexibility. There are three main issues that have come either out of the briefs submitted to the Panel or from meetings with the Advisory Committee.

Issues

A major issue in funding public education is the division of responsibilities between the province and local school boards. There seem to be three major questions concerning this issue.

- Who should fund the core education program?
- Who should pay for local programming?
- Should the province transfer education funds to parents directly instead of to school boards?

WHO SHOULD FUND THE CORE EDUCATION PROGRAM

Discussion

Two alternative approaches can be used to pay for the provincially recognized education program, which is often called the "core program" or "core":

- ***provincial funding of the core***. The province can pay 100 percent of the cost of the core program. This is the approach used in British Columbia and in some other provinces such as New Brunswick and Prince Edward Island.
- ***shared funding of the core***. The province and the school boards can share the cost of funding the core program. A shared funding approach was used in British Columbia before the introduction of block funding. It is also used in most other provinces including, for example, Ontario and Manitoba.

When the pro[illegible]funds the core program, the finance system is accountable and understandable. The public clearly understands who is accountable because the responsibility for deciding how much to spend rests with the same level of government as the responsibility for raising the funds. Provincial funding also means that the wealth of each individual school district does not affect the quality of the core program.

Shared funding of the core program represents a fundamentally different (and more traditional) approach to education funding. Under this approach, school boards are responsible for funding the core program and for raising the money through local taxes. The role of the province is to assist boards that are unable to raise enough money to pay for the core program.

One of the differences between the provincial model and the shared funding model relates to the clarity of accountability. In the provincial model, it is easier for parents and taxpayers to understand who is responsible for what. Accountability is less clear in a shared-funding model. In both models, it is necessary to define the core program and the costs of providing it.

Conclusions

There is general agreement among Advisory Committee members and comments in the briefs that equality of opportunity has to be a fundamental element of education funding. Further, they believe that the best way to achieve this goal is for the province to be responsible for defining and paying for the core education program. This means that the province, with the assistance of the education partners, needs to define what is a core level of education and what it costs to provide that level. The province would provide the funds necessary to pay for the core. School boards would be responsible for managing schools and for delivering programs with the funds available.

WHO SHOULD PAY FOR LOCAL PROGRAMMING?

Discussion

Local programming could be paid for by the province or by school boards.

1. ***Provincial funding of local programs***

   Under this method the province would provide the funds needed to meet local requirements. Only one level of government would be levying taxes for education.

   If the province provided sufficient discretionary funds to school boards there could be room for flexibility and innovation at the local level. Even school boards with limited taxing ability could still finance local programs. However, provincial funding may not provide school boards with sufficient autonomy and flexibility to respond to local needs.

2. ***Local funding of local programming***

   In a system where school boards pay for local programming, boards could have full discretion over taxing and spending at the local level, or the province could put limits on the extent to which school boards can fund local programs.

   - ***Unrestricted local funding of local programs***. The advantages of this system are local autonomy, flexibility, and accountability. Local discretion over spending means that school boards can be responsive to local needs and desires. By levying local taxes, school boards can choose to have more programs or more expensive programs than the provincially determined core level. When school boards have this degree of discretion, they are able to fund new ideas and programs and to improve the quality of education. The development of so-called "lighthouse" programs are an example of what can happen when there is local flexibility.

     Local taxing authority would make school districts accountable to local taxpayers for local spending decisions on education.

     Local taxing authority would also allow school districts to use tax revenues to compensate for any discrepancies in the provincial distribution formulas. Since the formulas cannot fully capture all of the differences in costs among school districts, local taxes could be used to correct for any perceived under-estimation of costs in the formulas.

     There are also potential disadvantages to local taxing authority.

     - Because boards with access to a stronger tax base are able to provide better services, local taxing authority could compromise equality of opportunity.
     - If local taxes increase over time in response to local requirements, there may be pressure to recognize local spending decisions in the core level of programming. This could aggravate the debate over what should be considered part of the core

program and what should be considered as "local programming."

  - The province, school boards, and local governments would have to compete for the use of the property tax base. This competition would increase the potential for confusion inherent in a system in which the tax base is shared by several governments. Taxpayers will not be able to see as clearly which taxes are going to which government and for what purposes.

- ***Restrictions on local funding of local programs***. The main argument for restricting the use of local funding is to protect equality of opportunity. If some boards have greater ability to tax than others, they will be able to provide a higher quality of education. Such a system compromises equality of educational opportunity and may provide some justification for limiting the extent to which boards can raise taxes.

  There are several ways in which restrictions can be placed on local spending and taxing powers:

  - ***formal limits***. The province can restrict the types of expenditures or the percentage of expenditures for which a school board could levy taxes locally.
  - ***referenda***. Taxes could be levied locally only with the approval of taxpayers through a referendum.
  - ***petitions***. A petition from a large number of taxpayers could force the school board to reconsider a tax decision.
  - ***voting proportion***. An increase in spending could require substantial agreement by a majority of the board: e.g. 66 percent.
  - ***disclosure***. The province could require school boards to consult in a prescribed manner with the public before deciding on the annual budget.

At some time or other, most of these mechanisms have been used to limit some aspect of local government taxation. Today, the referendum is being used in B.C. to limit the taxation powers of school boards.

Although a referendum process may make school boards more accountable to taxpayers, it has proven to be a cumbersome and impractical instrument. Even if school boards get approval from taxpayers to levy a local tax, the authority extends for only one year. Each year the referendum process has to be repeated, with the result that the referendum process has effectively denied school boards access to local taxation.

Some of these restrictions may work in the short run but they can have unintended consequences in the long run. The potential problems depend on the nature of the restrictions: for example, putting a ceiling on expenditures may encourage some school boards to spend up to the specified limit. In all cases, however, restrictions make it more difficult for school boards to respond to local needs.

Conclusions

As in many other issues, the methods for funding local programs involve a tradeoff between equality of opportunity and flexibility at the local level. Comments from the briefs and Advisory Committee members do not indicate agreement on the extent to which school boards should have the power to fund local programs by levying local taxes. We also need more analysis and discussion of the issue of constraints on local taxing and spending decisions.

SHOULD THE PROVINCE TRANSFER FUNDS TO PARENTS INSTEAD OF TO SCHOOL BOARDS?

Discussion

A number of briefs submitted to the Panel recommended the use of education vouchers. Some European countries and some states in the U.S. make limited use of vouchers to fund education, but vouchers are not used in any Canadian province.

Vouchers are subsidies to individual parents which they must spend on their children's education. Voucher systems may have different characteristics designed to achieve different purposes. For example, the value of the voucher can be the same for every child, or it can vary according to family income, the child's level of achievement, or other factors.

Vouchers are an alternative way of distributing funds for education. Instead of distributing the funds to school boards, the provincial government would transfer funds directly to parents.

People who support the use of educational vouchers believe they give parents greater choice and control and that they promote competition among schools. They believe that competition will improve the quality of education and lower the cost. However, it is not clear from experience that voucher systems lower the costs of education.

There are a number of problems with vouchers.

- Consumers often do not have full information about schools and programs; this limits choice, especially for low-income families.
- Vouchers do not ensure equality of opportunity in education. If all parents receive the same amount of money in the voucher, they will not all be able to buy the same education services because costs differ in different jurisdictions and for different students.
- Even if the value of the voucher varies according to the characteristics of the student (for example, special needs), there is still the problem of having to classify people. There is the danger that students with special needs will not be treated fairly.
- If families are able to supplement the voucher with their own money, the system will not be able to ensure equality of opportunity.
- Children are not guaranteed access to the school of their choice. The popular schools would still have to find some way of selecting (and rejecting) students.
- Uncertainty about enrolment will make it difficult for schools to plan for the future.

Conclusions

Although it may be possible to minimize some of the problems with vouchers by designing them carefully, vouchers are likely to result in inequities in educational opportunities between high-income families and low-income families. This result goes against the long-standing educational goal of equalizing educational opportunities.

Although the voucher system may have many problems, it is important to recognize that parents have a strong desire for more choice in the current education system. This desire for greater choice is an important issue that is beyond the scope of a review of the education finance system.

SIX

PROVINCIAL FUNDING

Each school district needs sufficient funds to deliver the recognized provincial education program. The provincial government is responsible for making sure that these funds are available. In this Chapter we examine the way the province determines the overall level of funding for public schools (the size of the funding "pie") and the way those funds are distributed to individual districts (the slices of the "pie").

LEVEL OF PROVINCIAL FUNDING

Issues

Much of the public debate over education funding centres on the twin issues of adequacy and affordability: are there enough funds for schools to do their job; and is the level of funding consistent with taxpayers' willingness to pay? These questions are not easily resolved. Thev require political judgment.

A finance system cannot guarantee a level of funding that everybody will view as acceptable. As we pointed out in Chapter Four, changing the finance system will not eliminate debate over the amount of money that should be spent on schools. However, the design of the finance system can help shape the debate.

In this section we review three issues that are critical to the design of a suitable finance system.

- What method or methods should be used to set the overall level of provincial funding?
- Should provincial funding levels reflect collective bargaining outcomes?
- How can we achieve greater stability and predictability in provincial funding?

WHAT METHOD OR METHODS SHOULD BE USED TO SET THE OVERALL LEVEL OF PROVINCIAL FUNDING?

Discussion

In recent years three approaches have been used in British Columbia for calculating the overall level of provincial funding: actual spending, defined service levels and costs, and block funding.

1. ***Actual Spending***

   Under this method overall funding is based on how much school districts actually spent in the previous year, with an adjustment for expected cost increases.

   Actual spending and actual costs incurred by school districts are obviously an important guide to the cost of delivering the provincially recognized education program. However, there are two reasons why provincial funding cannot be based simply on the previous spending patterns of boards.

- ***Poor incentives***. If the province uses actual spending as the measure of how much school districts need, school boards will have little incentive to be cost effective because the province will fund all their expenses.
- ***Different school boards have different spending priorities***. Board spending decisions reflect local priorities as well as the provincially recognized education program. The province will inevitably see some of these "local" costs as discretionary.

In the past actual spending has been used as an element in the funding system. Before 1982 the basic education finance system defined provincially recognized funding by reference to spending in the previous school year. This system was abandoned, however, in favour of a system based on defined service levels and costs.

2. ***Defined Service Levels and Costs.***

Under this method the province sets the levels of service and the costs that it will fund.

Instead of basing funding on the actual costs incurred, the provincial government can define the service levels and costs that it is willing to accept as a basis for the provincially recognized program. This was the approach used from 1984 to 1989/90 when service levels and cost factors were defined as part of the "fiscal framework."

This approach has some advantages. By setting out clearly the services and costs the province is willing to recognize and fund, it provides a structure for the discussion of funding by the partners in the education system. For example, if school boards believe more funding is required, they can point out where the service levels are inappropriate and where the cost factors are out of date. On the other hand, if the province wishes to limit its education funding, it can do so by defining the provincially recognized service it is willing to support.

However, the approach is not without its problems. First, it is hard for any formula-based system to capture all the complexity of a school operation. Formulas are always an approximation. Therefore, it will always be possible to point out areas of spending that are not recognized in the framework. Secondly, the cost factors will always be somewhat out of date because these costs can change after the funding level and budgets for the year have been struck. Third, and most important, there will always be a tension between actual and recognized costs because provincial funding cannot simply rubber stamp all costs incurred by boards.

Like actual costs, the use of defined services and costs also presents some problems. It was for this reason that the change was made to block funding in 1990/91.

3. ***Block Funding***.

Under this method the province increases the level of funding in each year by an amount that allows for changes in enrolment, changes in economic conditions, and changes in service levels.

Rather than recalculating the level of funding each year by referring to either actual costs or recognized services, block funding puts the emphasis on reasonable changes in funding from year to year.

Each year, provincial funding increases to reflect three factors: changes in the level and composition of enrolment; changes in economic conditions; and, changes in the services schools are expected to provide. The adjustment for economic conditions provides school boards with an annual allowance for inflation in costs. Block funding was recommended by the Sullivan Royal Commission on Education.

While block funding eliminates some of the problems with other methods of setting provincially recognized funding, it too is not without its weaknesses. To some, block funding is simply "pulling a number out of the air" with no reference to the real world of teachers and learners in schools. It has more to do with what the government is willing to pay than with what is needed. For block funding to be acceptable, agreement must be reached on two issues.

- ***A suitable starting point***. The present system of block funding took total school board spending in 1989/90 as its starting point. However, the starting point might have been determined by reference to defined service levels and cost factors.
- ***Reasonable annual adjustments***. The annual adjustments must be seen as reasonable. The basis for those adjustments must be well understood, and the method of calculation should be predictable.

Conclusions

If the province is to fund the provincially recognized program, the education partners must reach agreement on the approach to be used for determining provincial funding. At this time, such agreement is not apparent. Some favour retention of the block funding approach, and others would like to see a return to defined service levels and cost factors.

Whichever route is followed, most Advisory Committee members see value in examining the definition of what is provincially recognized and what it costs to deliver that program today. Such a process could be the basis for either continuing block funding or returning to the system in place prior to 1989/90. Therefore, we have concluded that a collaborative financial planning process for defining the cost of the provincially recognized program would be useful.

This process would also provide the forum for discussing changes to the provincial education program. One of the biggest concerns of school boards and their staff is their capacity to meet the growing expectations of schools as we move into the 21st century. They are concerned that the resources will not be available to deliver new programs in new ways.

They are seeking, therefore, some assurances that the province will not introduce changes in provincially recognized programming without also providing school boards with the financial resources to implement the changes effectively. A collaborative financial planning process is the best way of achieving agreement on what is needed and what is possible.

SHOULD PROVINCIAL FUNDING LEVELS REFLECT COLLECTIVE BARGAINING OUTCOMES?

Discussion

School boards have a central role in shaping some of their costs through the collective bargaining process. Salaries and benefits account for 90 percent of school operating costs.

If all bargaining outcomes were automatically reflected in provincial funding, there would be little incentive on the part of school boards to bargain hard with their employees over those costs. Stated differently, if the province funded the full amount of all bargaining outcomes at the local level, there would be no local accountability for local decisions. The Royal Commission on Education put the dilemma this way:

> *Because the provincial government is not a direct player in the collective bargaining process it is reluctant to "ratify" automatically any locally negotiated salary settlement. The government would like the parties to arrive at a settlement within the bounds of the government's willingness to pay. However, over time, there is considerable pressure on provincial funding to keep pace with collective bargaining outcomes... Any funding system has to come to grips with this problem.*

This tension in the funding system can create a situation where the province believes it has provided sufficient funds to meet the needs of schools but, because that funding does not reflect bargaining outcomes, school boards have to reduce services. This can lead to a situation where the province blames school boards for unaffordable bargaining outcomes and school boards blame the province for insufficient provincially recognized funding. As a result, the public is confused, and accountability is blurred.

If school boards had greater access to local taxing authority, they could use that power to pay for bargaining outcomes not recognized in provincial funding. In this way, school boards would be accountable to local taxpayers for some of the consequences of local bargaining outcomes. Over time, however, the debate over an appropriate level of provincial funding would continue. The debate would become acute if local taxpayers were to become dissatisfied with the level of their property taxes and were to try to get relief through additional provincial funding for schools.

Conclusions

Collective bargaining has a major impact on the cost of education. However, it is generally agreed that provincial funding should not automatically reflect bargaining outcomes because such a system would distort the bargaining relationship between boards and their employees.

HOW CAN WE ACHIEVE GREATER STABILITY AND PREDICTABILITY IN PROVINCIAL FUNDING?

Discussion

One of the concerns of school boards is the lack of stability and predictability in school funding. The level of provincial funding is decided annually. Therefore, boards have no basis for longer-term planning and no certainty that funding levels will be maintained. Two suggestions have been made for increasing the predictability of school funding: indexing of provincial funding, and multi-year budgeting.

1. ***Indexing.***

   Indexing would tie increases in school funding to clearly defined economic indicators. Many alternative indices have been suggested, and each one has both strengths and weaknesses.

   Some would link education funding to trends in consumer prices and labour costs. Price indices such as the Consumer Price Index are readily available and are well understood.

   These general indices do not reflect the particular costs of running schools or the wages and salaries of people working in the schools. For this reason a special education cost index has been suggested. However, such an index could introduce poor incentives. If all increases in education spending were reflected in the index, then all increases would be funded automatically by the province.

   An alternative type of index is one that reflects the capacity of the provincial government and the provincial economy to support education spending: for example, growth in provincial revenues or growth in the economy. Both are routinely measured and could be used as a basis for provincial funding.

   The provincial government may be reluctant to agree to an index because education spending is a large component of the provincial budget. Linking education spending to an index would reduce the government's flexibility at budget time when choices have to be made between competing demands on provincial resources. Increased predictability for boards can come only at the expense of budgetary flexibility for the provincial government.

2. ***Multi-year Funding.***

   Multi-year provincial funding is an alternative way of achieving greater predictability for school boards. Multi-year funding could take a variety of forms, but the simplest would be for the province to give some indication of funding over a two or three-year period. It could indicate either a minimum level of funding or a range of funding. Such an approach would enhance predictability without locking the government into an indexed system.

Conclusions

There is substantial support for measures that would increase stability and predictability in provincial funding. Some disagreement remains about the best method to achieve that objective.

DISTRIBUTION OF PROVINCIAL GRANTS

Issues

An equitable system of provincial funding must ensure that all school districts are able to provide a similar level of service using funds made available from the provincial government. To make this possible, provincial funding must take account of inherent differences in costs between districts. Today these differences are acknowledged through the use of a series of funding formulas called the fiscal framework.

The fiscal framework has been used for the past eight years as the method of distributing grants to school districts. Since the introduction of block funding, the fiscal framework is no longer used to set the total level of provincial funding; but the formulas are still used to determine the distribution of funds between districts. The formulas in the fiscal framework have been modified from time to time in response to recommendations from school boards.

The distribution system has come under increased criticism since the introduction of block funding. Because the taxing powers of school boards have been constrained by the requirement to hold tax referenda and a limit has been put on the total block of provincial funds for education, more attention has been focused on the way provincial grants are distributed to boards. In addition, information has been presented on a "per pupil" basis, and this method of presentation has created a greater awareness of differences in funding between districts. For example, neighbouring school districts have compared their per pupil funding and wondered why they are different.

Despite these criticisms, it is generally recognized that there is a need to reflect, in a formula, the differences in the cost of education across school districts. Many of the briefs support retaining a formula-based approach to distributing provincial education funds. The Panel has received little or no support for movement to an alternative approach. To quote one brief:

> *...the current fiscal framework system provides a solid foundation that could be readily amended to achieve the desired outcomes of understandability, equity and simplicity.*

This is not to say that everybody is satisfied with the current distribution of funds or agrees that the distribution formulas accurately reflect all of the major cost differences among districts. To many observers the system remains seriously flawed. It is beyond the scope of this review to examine in detail all the suggested inequities. We can, however, take a close look at the process for assessing and resolving complaints.

Some of the criticisms of the distribution system come from its complexity: it is hard to have confidence in a system that many people do not fully understand.

In view of these various concerns, we see three issues regarding the distribution of provincial education funds that require further examination.

- How should inequities be addressed?
- What would make the distribution system more understandable?
- Should provincial funds be targeted to specific purposes?

HOW SHOULD INEQUITIES BE ADDRESSED?

Discussion

As long as there are serious doubts about the equity of the distribution system, the credibility of the education finance system as a whole will be compromised. There must be a process for reviewing concerns over equity and for recommending changes. A process of annual review has been used for some years, but it has been criticized from four perspectives.

- ***Membership***. The reviews have been conducted by panels of superintendents and secretary treasurers, supported by staff from the Ministry of Education. Knowledgeable education partners such as trustees, principals, teachers and other school board employees have not been represented.
- ***Approach***. The process lacks an agreed basis for determining when the allocation system fails to meet the test of equity. It doesn't have a way to tell us "When do we have it right?" or "How much precision do we need?" Nor does it monitor the impact of changes to the funding system.
- ***Information base***. The work of the technical committee is hampered in many areas by a lack of information on a consistent basis from school districts on how funds are spent.
- ***Perspective***. The review process looks at only one aspect of funding: how funds should be distributed. It fails to look at the way districts are managing those funds.

The present system of review has been successful in making improvements to the funding formulas. However, there will have to be some changes in the process in order to ensure that people have confidence in the distribution system.

Conclusions

Most Advisory Committee members agree that resolving inequities in the funding formula is a priority issue. A committee should be established and charged with the task of assessing complaints about the current system. This process of review should be ongoing, and it should have the following characteristics.

- It should involve a wide range of expertise from the partners in the school system, and it should be technical in nature.
- It should not be a forum for debate about the structure of the finance system or the overall level of funding.
- Those who are charged with reviewing complaints should be responsible for explaining and justifying any proposed changes to the

system. For this reason, membership of the review committee should be more stable than it has been to date.

- The review process should pay more attention to ensuring wide support for changes than to implementing frequent changes.

WHAT WOULD MAKE THE DISTRIBUTION SYSTEM MORE UNDERSTANDABLE?

Discussion

Most people agree that the current system of distributing provincial grants is complex: the detailed explanation of formula funding is almost 60 pages long. Clearly, it is not possible to explain all the facets of the funding formulas in a quick and easy way to parents, taxpayers, teachers, and school trustees.

The practice of annual changes to the framework also adds to the difficulty of understanding. It is hard to keep up with a complex system that changes so frequently. Some people have given up trying to do so!

Simplification may be one way to improve understandability. The funding formulas used by other provinces tend to be less complicated than the fiscal framework used in B.C.; and it is possible that the current system in British Columbia could be simplified. However, any attempt to simplify the system will face some equally strong pressures in favour of complexity.

- As long as the province provides the "lion's share" of school funding, the distribution formulas will be expected to take into account all the significant reasons for variations in costs between districts. In other provinces that have a simplified funding formula, school boards supply much of the education funding from local taxation.
- A simplified system may be hard to understand unless the individual funding categories reflect the way a school district budget is constructed.
- A simple formula is acceptable as long as there are relatively few cost differences between districts. When the differences are substantial, a simple formula will not be accepted as being equitable.
- Over time there is pressure to include more and more of the unique circumstances of each district in the funding formulas. These changes increase rather than decrease complexity.

For all these reasons, substantial simplification may be neither possible nor desirable. If this proves to be the case, greater efforts will have to be made to communicate the essence of the current system in a way that is easily understood by all partners in the system.

Conclusions

There is wide support for improving the equity of the distribution system and also for making it more understandable. This means simplifying the system wherever possible. However, even if the underlying formulas remain relatively complex, the system must be clearly explained.

The committee charged with reviewing the equity of the fiscal framework should also be given the tasks of simplifying the system and presenting it more clearly so that more people can understand it.

SHOULD PROVINCIAL FUNDS BE TARGETED TO SPECIFIC PURPOSES?

Discussion

The provincial government places very few restrictions on the way school boards spend the funds provided to them. Although formula funding uses detailed estimates of the cost of different services, school boards are not, for the most part, constrained in how they allocate their budgets. The province views the fiscal framework as a funding formula, not a spending formula.

Within the operating budget, only a few elements of provincial funding must be spent in prescribed ways. These are:

- school accreditation.
- textbooks and other learning resources.
- minor capital projects.

In addition, a recent ammendment to the *School Act* sets conditions on the amount school boards must budget for special education programs.

Concerns have been raised around the issue of targeting education funds. Some wish to see more restrictions on the way school boards manage provincial funds because they are concerned that boards may make questionable short-term decisions (for example, foregoing necessary building maintenance when budgets are tight) or favour programs for the majority over programs for the minority (e.g., by cutting special needs programs when resources are scarce).

However, more restrictions on the way school boards allocate their funds would dilute their authority and compromise their ability to respond to local issues and concerns.

Most observers would agree that the Ministry of Education cannot effectively operate and manage 1,600 schools from its offices in Victoria. Local boards are necessary to ensure sound management that is sensitive to local conditions. School boards certainly feel that they are in the best position to decide how their funds should be spent and that they are directly accountable to their community for the decisions they make.

Conclusions

The debate over more or less targeting is difficult to resolve. It may be that the call for more targeting has become more pronounced because school boards are faced with difficult budgetary decisions. Parents are looking for ways to protect programs, and employee groups are seeking ways of protecting jobs. Both see targeting as an answer.

Regardless of where one stands on the general issue of targeting, targeting may be desirable for certain kinds of programs. For example, it may be appropriate to target funds for programs that are optional or designed to meet very specific needs (such as the school lunch program). School boards could decide whether or not they want to implement these programs (with provincial financial assistance). Targeting may also be appropriate for programs in which the provincial government has a special interest (such as pay equity) or where a common standard is desirable. In such cases, the targeted funds would be provided outside of formula funding, and they should be time-limited.

SEVEN

TAXATION

Property taxes pay for about 30 percent of the costs of education. The province levies both residential and non-residential property taxes for education; school districts can raise money through residential property taxes only, and only by referendum. In this chapter we raise a number of issues concerning the use of property taxes by the province and by school boards.

PROVINCIAL TAXATION

Issues

In 1992, the amount of residential property taxes going to fund schools was almost $396 million (net of the home owner grant) and paid for about 12 percent of the cost of education; almost $617 million in non-residential property taxes went to fund schools and paid for about 18 percent of the cost of education. Table 7.1 shows that the proportion of education expenditures being financed by property taxes has fallen over the last ten years.

Even though school funding relies less on property taxes now than it did than ten years ago, a number of concerns have been expressed about using any amount of property taxes for education. We address five issues that have been raised in briefs and by the Advisory Committee concerning provincial property taxation for schools.

- Should the province use property taxes to pay for schools?
- Should the province earmark property taxes for schools?
- How should the property tax base be shared among governments?
- How should provincial school taxes on residential property be shared among taxpayers?
- What form of tax relief should be provided?

SHOULD THE PROVINCE USE PROPERTY TAXES TO PAY FOR SCHOOLS?

Discussion

A number of briefs have suggested that education should be completely removed from the property tax and be funded from other sources. They give two reasons.

- They see no connection between property values and the benefits of education.
- They see property taxes as a regressive form of taxation because the burden is relatively greater on low-income people. They believe that other taxes, such as the income tax, are fairer.

The tenuous relationship between property and education, and the regressivity of the property tax are both subjects of ongoing debates that are beyond the scope of this paper. Although these may be strong arguments against using property taxes to finance education, the financial consequences of removing property taxation from school funding are significant and cannot be disregarded. A change in tax policy of this importance needs to be considered in the broader context of the whole local government finance system.

Property taxes contribute over $1 billion to education. Removing these taxes would force the province to make up the lost revenue from other sources. For example, the sales (social services) tax would have to increase by about 50 percent. Alternatively, the provincial personal income tax rate would have to increase by more than 20 percent.

Conclusions

The property tax has been widely criticized for being an unfair tax and unrelated to the benefits received from education. Whether or not these arguments are valid, the impact on other tax rates of removing education from the property tax is substantial. For this reason, the substitution of other taxes for the property tax needs to be analyzed in the context of provincial tax policy and provincial-municipal finances generally.

TABLE 7.1 **SCHOOL PROPERTY TAXES AS A PERCENTAGE OF SCHOOL FUNDING, 1983-92**

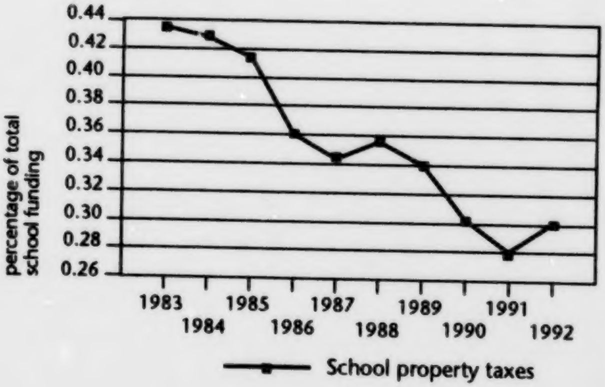
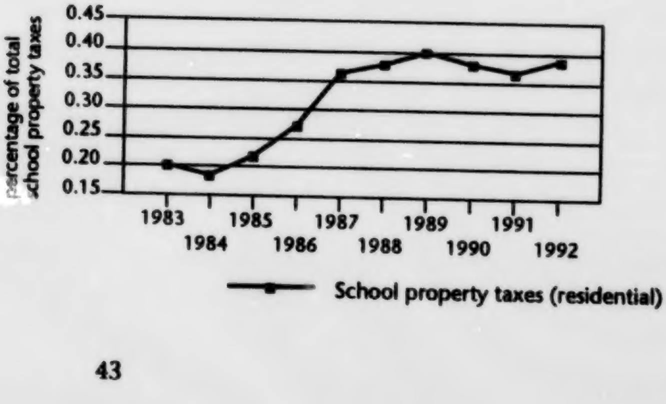


TABLE 7.2 **SCHOOL PROPERTY TAXES (RESIDENTIAL) AS A PERCENTAGE OF TOTAL SCHOOL PROPERTY TAXES (RESIDENTIAL AND NON-RESIDENTIAL), 1983-92**



SHOULD THE PROVINCE EARMARK PROPERTY TAXES FOR SCHOOLS?

Discussion

The province finances schools from a number of different sources:

- residential property taxes.
- non-residential property taxes.
- income taxes.
- sales taxes.
- other provincial revenues.

Only provincial residential and non-residential property taxes are earmarked for education; other provincial taxes and revenues are not. Earmarking means that specific revenues (for example, property taxes) are assigned to specific purposes (for example. education).

The experience with earmarking of property taxes for education in other provinces is mixed. In Prince Edward Island and New Brunswick where education funding is a provincial responsibility, provincial property taxes are not specifically dedicated to education. Rather, education is financed out of the general revenues of the province (which include property taxes). In other provinces where the provincial government levies property taxes (Nova Scotia, Manitoba, and Alberta), the revenues are specifically dedicated to education. There are no provincial property taxes for education in Ontario or Quebec.

One argument for dedicating property taxes to education is accountability: when taxpayers know that their taxes are paying for a specific service such as education, they can more easily see what they are getting for their money. However, accountability is made more difficult because:

- less than 12 percent of the cost of education is covered by residential property taxes, and
- the province pools property tax revenues so that the revenues from a particular school district are not necessarily spent in that district. Taxpayers cannot know how much of their property tax dollars are spent in their own school district.

Opposition to the removal of earmarking may come from municipal governments. Because they share the property tax base with the provincial government, municipal governments prefer to have limits placed on the use of property taxes by the provincial government. Earmarking property taxes for education is one type of limit.

Conclusions

The province uses a number of different taxes and other sources of revenue to finance education. It does not dedicate specific revenues to other areas of expenditure (such as health or social services, for example). There does not appear to be general agreement on the issue of dedicating provincial property taxes to education: some briefs and advisory committee members think it is a good idea; others do not.

HOW SHOULD THE PROPERTY TAX BASE BE SHARED AMONG GOVERNMENTS?

Discussion

The property tax base in B.C. is shared by the province, school districts, municipalities, regional districts, and others. Where many governments are raising revenues from the same tax base, two types of problems can arise:

- taxpayers have difficulty knowing which government is responsible for tax increases.
- governments have difficulty sharing the limited tax base in a fair way.

There are at least two ways to minimize the problems inherent in sharing a tax base.

- **Require school boards to collect their own taxes.** If school boards were to send out their own tax bills and collect their own taxes, then taxpayers would have a clearer idea of how much they are paying in taxes to the school board. Separating the collection of school board taxes from the taxes collected by other taxing authorities would make the system less confusing to taxpayers and would increase understandability and accountability.
- **Ensure stability in provincial school property taxes and tax relief.** Taxpayers face property taxes levied by municipal authorities, by the province, and sometimes by school districts. This system is already confusing, and policies that promote instability in provincial property taxes are likely to increase the confusion.

One example of instability is the shift during the past ten years from non-residential to residential taxation to fund schools. Table 7.2 (page 43) shows how residential taxes have changed over time relative to total property taxes. Residential taxpayers know their taxes have gone up, but they do not know which level of government is responsible for the increases.

The supplementary home owner grant is another example of instability. In 1990 and 1991 the home owner grant was increased to give home owners an additional grant to be applied against school property taxes. This year the government eliminated the supplementary home owner grant. The introduction of the supplementary grant, followed by its removal, creates unnecessary instability in provincial school property taxes. Home owner grants are evaluated further below.

If the provincial property tax for schools changes substantially every year, taxpayers have a hard time understanding why there has been a change and which level of government was responsible. Frequent changes in provincial property taxes can also cause problems for other taxing authorities. A volatile tax at the provincial level affects the ability of municipal authorities and school districts to raise revenue from property taxes.

Conclusions

Stability in provincial school property taxes and in property tax relief is essential in a system where many levels of government share the same property tax base. There is general agreement among Advisory Committee members that provincial school property taxes and tax relief programs should not change dramatically from year to year.

HOW SHOULD PROVINCIAL SCHOOL TAXES ON RESIDENTIAL PROPERTY BE SHARED AMONG TAXPAYERS?

Discussion

As part of provincial tax policy, the government must decide how school taxes on residential property are to be shared among taxpayers. Today, the province uses a different tax rate in each school district. The rates are highest where average property values are low and lowest where average property values are high.

One alternative is to apply a uniform rate of tax throughout the province. This is the system used for non-residential tax policy, and it was the policy in place in B.C. prior to 1982, when it was called the "basic levy" system. However, the basic levy policy has come under considerable criticism in this province for two reasons.

- With a uniform rate, taxes paid vary directly with the assessed value of property. Taxpayers who live in the lower mainland and other areas with high property values pay much higher school taxes than those people living in areas with low property values. Indeed, many home owners in school districts with low assessed values paid little or no school taxes after deducting the home owner grant.
- In a period of rapidly increasing property values, the spread in residential taxes paid in different parts of the province tends to widen.

For these reasons, the basic levy system was replaced with one intended to create greater evenness in taxes paid across the province. The Sullivan Royal Commission report supported the move away from a uniform rate with these words:

> *The Commission believes that the decision to move away from the basic levy system was sound. We agree that assessed property values are not an ideal measure of ability to pay and that a funding system should accept some variation in tax rates to support the core program.*

However, the Commission also suggested some changes in the way tax rates are calculated. The provincial government has accepted the advice of the Commission and has adopted a method of calculating school district tax rates that is a balance between a uniform-rate system and one that would generate uniform taxes from district to district. Table 2.4 in Chapter Two provides some examples of variations in tax rates and taxes paid on "average" homes across the province.

Conclusions

There continues to be some debate about the appropriate way of sharing the provincial residential tax throughout the province. The debate centres on different concepts of tax equity. Home owners in the areas with high assessed values continue to argue that they pay a greater share of taxes than they should. They would prefer to see more evenness in taxes across the province. Others believe that assessed property values are a reasonably good measure of personal wealth and should be used as the basis for taxation. These people advocate a return to a uniform tax rate.

WHAT FORM OF TAX RELIEF SHOULD BE PROVIDED?

Discussion

There is a general perception that property taxes are regressive and take a greater proportion of income from low income earners.Most provinces have programs to help low-income taxpayers.

The three ways for delivering relief from property taxes are home owner grants, tax credits, and tax deferrals. B.C. uses home owner grants and tax deferrals.

1. ***Home Owner Grants***

The home owner grant has been in place in B.C. for many years. Despite some confusion about its name, it is relatively well understood because it directly reduces the taxpayer's liability at the time the property taxes are due. The property tax payable is less than it would be without the grant. However, there are some concerns about the design of the grant.

- Because the grant is a flat amount, it is not targeted to those who need it, except for the fact that seniors get a larger grant. An alternative would be to replace the home owner grant with a tax-relief scheme linked to ability to pay.
- The home owner grant reduces school taxes first, but if school taxes are less than the grant, the balance can be used to reduce other taxes. Some people question the link between the home owner grant and school taxes and argue that the grant should help reduce general property taxes.
- The home owner grant adds another complicating factor to an already complicated property tax system. Some would like to eliminate the grant and replace it with a reduction in provincial residential tax rates. Although this would simplify the system of property taxes, a change of this type would result in a redistribution of the property tax. The implications of such a change require further study.

2. ***Tax Credits***

Income tax credits are one alternative to the home owner grant. Quebec, Ontario, and Manitoba use income tax credits to reduce property taxes.

A tax credit can be designed to give relatively more relief to those with low incomes than to those with high incomes. Tax credits can be used for both home owners and renters.

Tax credits have three disadvantages.

- Because tax credits are administered as part of the federal and provincial personal income tax, the home owner/renter receives a credit only once a year when filing income taxes. However, property taxes are payable long before the credit is received. This situation can result in a liquidity problem for taxpayers.

- The taxpayer has to file an income tax return to be eligible for a tax credit. Those with little or no income, who are most in need of a credit, often do not file income tax returns.
- Because the federal government administers tax credits as part of the income tax system, taxpayers tend to perceive the property tax credit as a reduction in federal and provincial income taxes and not a credit against local property taxes. This tends to confuse taxpayers and reduce accountability.

3. *Tax Deferrals*

An elderly person living on a low income in a house that has increased substantially in value may not be able to afford to pay the increased property taxes without selling the house. In order to alleviate the financial problems of seniors who are cash-poor but asset-rich, the provincial Land Tax Deferment Program allows seniors (and widows and the disabled) to defer property taxes until they sell their home or until after their death. A tax deferral allows seniors to stay in their homes even if they don't have enough income to meet their property taxes.

In spite of the apparent advantages, tax deferral programs tend to be unpopular. People often have strong emotional attachments to their homes and do not like the idea of putting a lien on their children's inheritance. For these reasons, tax deferral programs are not an effective way to provide general property tax relief.

Conclusions

Tax credits may be more desirable in terms of fairness because they are more closely related to ability to pay than are home owner grants. However, home owner grants are more understandable to taxpayers because they are clearly identified as a reduction in property taxes and they directly address potential cash-liquidity problems. Although tax deferrals have the advantage that seniors who cannot afford their property taxes can stay in their homes, tax deferrals tend to be unpopular.

SCHOOL BOARD TAXATION

Issues

If school boards have taxation powers, two main issues need to be resolved.

- What sources of tax revenue should be available to school boards?
- Should school board tax revenues be equalized?

WHAT SOURCES OF TAX REVENUE SHOULD BE AVAILABLE TO SCHOOL BOARDS?

Discussion

Since 1986, school boards have been able to levy taxes on residential property only (and, since 1990, only by referendum). Prior to 1982, however, they levied taxes on both residential and non-residential property. Between 1982 and 1986, they had no ability to levy taxes. In this section, we evaluate three potential taxes that school boards might use: residential property taxes, non-residential property taxes, and income taxes.

1. ***Residential Property Taxes***

   The main argument in favour of school boards having the power to tax residential property is that the residential property tax is a visible tax and therefore an accountable tax. Residential taxpayers usually know how much they pay in property taxes and can relate the amount of their tax to the amount the school board spends.

   Further, if the costs of the provincially mandated program are paid out of provincial revenues and not out of school board revenues, then there should be sufficient room in the residential tax base to meet local expenditure requirements. School boards may not require access to the non-residential tax base as well.

2. ***Non-residential Property Taxes***

   The non-residential property tax represents a potentially large source of revenue for school districts. If school districts were responsible for a significant share of the costs of education (including, for example, a significant portion of the provincially mandated program), then they might require access to the non-residential property tax base.

   For reasons of accountability and equity, taxing of non-residential property may be less acceptable as a source of school board revenue than taxing residential property.

   - In the case of residential property, most of the people paying the tax will be local home owners and renters. However, some of the people paying tax on non-residential properties will reside outside of the school district. For example, taxes on a manufacturing company are likely to be passed on to the consumers of its manufactured products through higher prices for those products. These consumers may or may not reside in the same district. Exporting taxes reduces accountability since those who pay the tax do not vote in the jurisdiction where the tax is levied.
   - Because the residents of a school district are often both voters and parents of the children in the schools, the residents of communities with a relatively large share of non-residential property may tend to vote for increased expenditures (and by extension, increased non-residential taxes). Accountability suffers when local taxpayers demand greater expenditures with the understanding that other taxpayers (non-residential property owners or consumers in other jurisdictions, for example) will have to pay the bills.

- One of the problems with assigning school boards the authority to levy a non-residential property tax (as well as a residential property tax) is that those districts with a relatively large share of non-residential assessment will find it easier to increase property taxes than those communities that are largely residential. For example, the ratio of non-residential assessment to residential assessment is 1.6 on average for the province; however, among school districts this ratio ranges from a low of 0.3 to a high of over 24. The resulting inequity may need to be addressed through equalization. (Equalization is discussed further below.)

On the other side of the argument, business owners and employees might become more involved in the management of the school system if school boards had the power to tax non-residential property.

Although municipalities and other local governments have access to the non-residential property tax base, school boards do not. However, there are significant differences between school boards and municipalities.

First, municipalities provide services directly to commercial taxpayers (in the form of roads, policing, and other services) and they have a responsibility to encourage economic development. While they need to collect revenue from non-residential taxpayers to pay for direct services, they also have an obligation to make sure taxes do not get high enough to discourage economic development. In contrast, school boards do not provide a direct service to local businesses. Although industry and commerce benefit from a well-educated labour force, this benefit is linked to the education system as a whole and not to spending by the specific school district in which the business operates.

Second, municipalities depend much more heavily on locally raised revenues than school boards do. Provincial grants, for example, make up a much smaller proportion of municipal revenues than school board revenues. This means that municipalities need to raise more from property taxes.

3. ***Income Taxes***

Some people have suggested that school boards should raise income taxes because incomes are considered to be a better measure of ability to pay tax than property values. While this may be true, there are several problems with implementing an income tax at the local level.

- If each school district designed, levied, and collected its own income tax, the administrative costs would be prohibitive.
- The only practical way for school districts to levy an income tax would be to piggy-back onto the provincial income tax, which in turn piggy-backs onto the federal income tax. In that case, the federal government would determine the tax base and collect the

tax. Unless school districts were able to set their own income tax rates, both local autonomy and accountability would be compromised. However, it is unlikely that, within the federal and provincial income tax system, school districts would be able to establish their own rates of tax.

Conclusions

If school boards were to have taxation powers, there is some support among Advisory Committee members for giving boards access to the residential property tax base. The residential property tax is a visible tax that both promotes accountability and gives local school boards greater flexibility. However, there does not appear to be general agreement on access to the non-residential property tax base. There are substantial barriers to introducing income taxes at the local school board level.

SHOULD SCHOOL BOARD TAX REVENUES BE EQUALIZED?

Discussion

If school boards have access to property taxes, then it is likely that those districts with high property assessments will have access to more resources and be able to provide better services than those with a weaker tax base. The potential for inequity in this situation may call for some way to equalize school board revenues across the province.

The main advantage of equalization is equity: all boards would be able to provide a comparable level of service by levying comparable levels of tax.

Equalization does raise some problems, however.

- Equalization may weaken accountability. There is no longer a clear relationship between school board spending and taxation.
- Equalization may reduce local flexibility. School boards that want to raise funds locally to respond to local needs may be concerned that other districts may be spending some of those funds. This will constrain the ability to respond to local needs.
- Some equalization schemes introduce poor incentives: school boards may be encouraged to spend more because they can count on getting financial support from outside their district.

There are also some practical problems in designing an acceptable equalization scheme. These problems include:

- lack of agreement on what constitutes equity. Should the standard for equity be the assessed value of homes, the amount of taxes school boards would have to raise to finance a given level of spending, or the incomes of taxpayers in the district?
- lack of agreement about the form of equalization. Should the province give support directly to the districts with the weakest tax base (with equalization grants paid for out of provincial revenues) or should the province redistribute some of the revenues from richer to poorer districts?

- difficulties inherent in maintaining a stable equalization scheme in a period of rapidly changing property values. How should the equalization scheme take account of the volatility in property values?

There are many complications inherent in an equalization system. Because of these difficulties, there is some support for a system which ensures equity by funding the provincially mandated education program from provincial revenues. Local taxation would then be used to pay for unique programs which require expenditures above the provincially mandated level.

This method would preserve equity because all students in the province, regardless of the district in which they reside, would have access to the provincially mandated program. Local taxation would be used for local programs and, in this way, allow for local autonomy and flexibility. Limiting the taxation powers of school boards would also restrict potential inequities among school districts. This issue was discussed in Chapter 5.

Conclusions

Equalizing the effects of local taxation would enhance equity in education. However, there are some disadvantages. In addition to the practical difficulties in designing an acceptable equalization system, there are disadvantages in terms of local autonomy and flexibility. While there is general agreement that equity is important, the issue of whether and how to equalize local tax revenues remains unresolved.

A SUMMARY OF THE DEBATE

EIGHT ◀

In the previous chapters we have outlined the major issues in school funding. We have examined, also, the various approaches that have been suggested for resolving concerns about the current system. This chapter draws together the discussion in earlier chapters under two broad headings.

- ***Areas of potential agreement.*** We identify those areas of policy where the education partners appear to be in general agreement.
- ***Areas where choices have to be made.*** In those areas where agreement will not be achieved easily, we present four alternative approaches to school funding that illustrate the range of options open to the government.

By summarizing the discussion in this way, we hope to clarify the choices that have to be made in designing an alternative school finance system. It is our intention to encourage public discussion of a wide range of issues and options. Recommendations will come in our final report after we have consulted with the public and with education partners in a series of regional meetings.

AREAS OF POTENTIAL AGREEMENT

Based on the meetings with the Advisory Committee and the briefs submitted to the Panel, we can anticipate a number of areas of funding policy on which the education partners are in general agreement.

Roles and Responsibilities

- ***The province is responsible for defining and paying for the core program.*** The province determines (with the assistance of the education partners) what is a core level of education and what it costs to provide that level. It would provide the funds necessary to fund the core.
- ***School boards are responsible for managing funds in the best interests of students.*** School boards have the primary responsibility for managing the schools and delivering programs using the available funds.

Provincial Funding

- ***A joint financial planning process.*** A collaborative financial planning process involving all education partners should be used to assist the provincial government in defining the cost of the core program and the financial impact of changes in the mandate of schools.
- ***Distribution of provincial funds using a formula-based system.*** Provincial funds would continue to be distributed on the basis of a formula approach which reflects the different costs of providing education in different parts of the province.

- ***A review of inequities in formula funding by a broadly based technical committee.*** A committee drawn from education partners should be established and charged with reviewing perceived inequities in school funding, such as those identified by rapidly growing districts.
- ***Clarification of the distribution system.*** The funding formulas should be simplified wherever possible and presented in such a way that all education partners can understand how they work.

Provincial Taxation

- ***All citizens should continue to pay for schools.*** All citizens in the province, and not just the users of the service, should help pay for education.
- ***Stability in provincial school property taxes and property tax relief.*** If the province continues to use property taxes to pay for the core education program, it should do so in a way that is sensitive to local government's dependence on property taxes. Sensitivity implies that provincial school property taxes and tax relief policy should remain stable from year to year.

Some of these policies propose new processes for resolving the more detailed and technical features of school funding, particularly the task of redesigning formula funding. These processes will involve extensive and detailed work. Work on these processes is not dependent on the choice of option.

AREAS WHERE CHOICES HAVE TO BE MADE

On a wide range of other policy issues it will not be easy to achieve general agreement. For example, it will be difficult to achieve substantial agreement on answers to the following questions:

- Do school boards have sufficient taxing powers?
- To what extent should property taxes be used to pay for schools?
- Can school funding be more predictable?

On all of these issues there are strongly held, conflicting points of view. Therefore, we present in this section four options for school funding that illustrate the range of choices that have to be considered. They are not the only options available, but they are representative of the main alternative approaches identified by the Panel from discussions with the Advisory Committee and analysis of the written briefs. They reflect, also, the range of systems used in other provinces.

Option 1: Indexed Provincial Funding

The province determines the level of funding for schools and funds 100 percent of the costs through provincial revenue sources. Block funding is retained and is linked to a defined economic index in order to assure reasonably stable and predictable levels of provincial funding. School boards manage schools with the funds provided by the province and have no taxing authority. Option 1 is similar in some respects to the provincial funding systems in New Brunswick and Prince Edward Island.

Option 2: Local Autonomy

The provincial government provides each school board with sufficient funds to deliver the core education program. Provincial funding of the core is calculated on the basis of provincially recognized service levels and costs. School boards have the authority to set their spending level based on their assessment of local needs and priorities. School boards finance spending beyond the core level of funding by taxing residential and non-residential property. The capacity of each board to raise revenue is equalized by the provincial government. This option is similar in many respects to the system of school finance used in Alberta and Ontario.

Option 3: Limited Local Autonomy

The provincial government funds the core program on the basis of provincially recognized service levels and costs. School boards have authority to fund local initiatives, but this authority is limited (for example, up to a fixed percentage of the core funding), which is similar to the approach used in Quebec. School boards finance local initiatives by taxing residential property. The provincial government uses non-residential property taxes to help pay for the cost of the core program.

Option 4: Provincial Funding without Property Taxes

This option is similar in all respects to Option 1, but it substitutes other sources of provincial revenue for school property taxes. Elimination of school property taxes is feasible only if the province has sole responsibility for funding schools. It is not practical to give school boards taxing powers other than the property tax. This option is not used today in Canada. In those provinces where there is total provincial funding, some use of property tax revenues is in effect.

THE ELEMENTS OF EACH OPTION

The elements of each option are summarized in Table 8.1. More details on the various features of these options can be found in the earlier chapters.

Table 8.1 THE ELEMENTS OF EACH OPTION

	Option			
	1	2	3	4
Provincial funding:				
Of the core program	•	•	•	•
Of local initiatives	•			•
School boards have:				
Limited discretion to fund local initiatives			•	
Complete authority over spending & taxing levels		•		
Level of provincial funding based on:				
Defined service levels and costs		•	•	
Block funding	•			•
Indexing or multi-year funding	•			•
Distribution of provincial funds based on:				
Formula funding	•	•	•	•
Source of provincial taxation for schools:				
Non-residential property taxes	•	•	•	
Residential property taxes	•	•		
Replacement of school property taxes with other revenue sources				•
School board taxation:				
No tax power	•			•
Residential property taxes		•	•	
Non-residential property taxes		•		
Equalization of local revenues:				
Not required	•			•
Partial			•	
Full	•			

THE CHARACTERISTICS OF THE OPTIONS

Ideally, we are seeking a system that is understandable, accountable, stable and predictable, fair, adequate, affordable, flexible, and adaptable. However, it will not be possible to achieve all of these objectives to the same degree. For example, flexibility and adaptability if taken too far may compromise fairness. Therefore, the design of a finance system will always require a trade-off between competing objectives. In the following section we examine some of the characteristics of the four options.

OPTION 1: INDEXED PROVINCIAL FUNDING

Option 1 is similar to the current structure of school funding in British Columbia but with the innovation of indexed funding. The province provides school districts with all their funds, including an allowance for local programming. School districts have to manage schools with the funds provided by the province, including the outcomes of collective bargaining with staff. The characteristics of Option 1 are:

- ***an emphasis on fairness in service***. Wherever one lives in the province, regardless of the wealth of the school district, students have access to a similar level of education .
- ***predictability in funding***. The use of an index or multi-year funding provides school boards with a basis for longer term financial planning.
- ***clear accountability for school funding decisions***. Only one level of government is responsible for setting the level of funding for schools.
- ***restrictions on local autonomy***. Without access to local taxes, school boards will be limited in their ability to respond to the needs and desires of their students and constituents.
- ***minimal flexibility***. School boards have no independent source of revenue to correct for perceived inadequacies in provincial funding.

OPTION 2: LOCAL AUTONOMY

Option 2 emphasizes the role of school boards as an independent level of government with responsibilities for establishing budgets and managing within those budgets. The province is responsible for funding the core education program, but school boards determine the overall level of spending in their districts. Boards can tax residential and non-residential property to pay for local initiatives, including collective bargaining outcomes not funded by the province. The characteristics of Option 2 are:

- ***substantial local autonomy***. This option gives school boards the power to respond to local needs. It allows for the possibility of innovation at the local level and for "lighthouse" programs within districts.
- ***considerable flexibility***. With access to their own tax base, school boards can respond to any perceived inadequacies in provincial funding.
- ***fairness through the core program***. The core program provides equality of opportunity, but local taxation could lead to differences in service levels between districts. Equalizing the financial resources of boards may limit the disparities in spending between districts.
- ***confused accountability for tax decisions***. The property tax base is shared by three levels of government: the province, school boards, and local governments. Taxpayers are likely to be confused about whom to hold accountable for taxing decisions.

OPTION 3: LIMITED LOCAL AUTONOMY

Option 3 provides some local autonomy but sets limits on local discretion in order to maintain an emphasis on equity in service levels across the province. The province is responsible for funding the core program and has access to the non-residential tax base to help fund the core. School boards can tax and spend for initiatives, but that discretion is limited (for example, by limiting local spending to an upper limit). School boards use the residential tax base to fund local initiatives and bargaining outcomes not funded by the province. Those with the weakest tax bases may require equalization benefits. The characteristics of Option 3 are:

- ***substantial fairness in service***. Everyone has equal access to the core program. Local taxation would not lead to wide differences in service between districts.
- ***partial local autonomy***. School boards have some ability to respond to local needs and to allow for the possibility of innovation at the local level and "lighthouse" programs within districts.
- ***limited flexibility***. Boards have some financial resources with which to respond to perceived inadequacies in provincial funding.
- ***separation of accountability for school tax decisions***. Only the province is responsible for levying non-residential school taxes. Only school boards are responsible for levying residential school taxes. However, both share the property tax field with local governments.

OPTION 4: PROVINCIAL FUNDING WITHOUT PROPERTY TAXES

Option 4 eliminates the use of property taxes for school purposes. The provincial government provides all the funding for schools by increasing other provincial taxes (e.g. income taxes and sales taxes). School boards have no taxing powers but are responsible for managing schools. This Option is similar to Option 1 with the addition that the province does not use property tax to fund education. The characteristics of Option 4 are:

- ***an emphasis on fairness in service***. Wherever they live in the province, regardless of the wealth of the school district, students have access to a similar level of education.
- ***clear accountability for property tax decisions***. Local governments are the primary users of the property tax base.
- ***restrictions on local autonomy***. Without access to local taxes, school boards have limited ability to respond to the needs and desires of their students and constituents.
- ***minimal flexibility***. School boards have no independent source of revenue to correct for perceived inadequacies in provincial funding.
- ***questions about the fairness of taxation***. Elimination of property taxes for schools would be accompanied by substantial increases in other taxes. The overall effect would be a major shift in the tax burden between individuals across the province. Not all taxpayers will see the changes as fair.

APPENDIX 1

EDUCATION FUNDING REVIEW PANEL

Peter Adams
Economic Consultant

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Associate Executive Director, B.C. School Trustees Association (on leave)

Enid Slack
Economic Consultant

Cindy Spangelo
Chair, Public Policy Consultant

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British Columbia Principals and Vice-Principals Association

Keith Gray
Business Council of British Columbia

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British Columbia School Superintendents' Association

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British Columbia Teachers' Federation

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Canadian Union of Public Employees

Richard Taylor
Union of British Columbia Municipalities

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Dale Wall/Al Tamblin
Ministry of Municipal Affairs, Recreation and Housing

EDUCATION FUNDING REVIEW COMMITTEE OF ELECTED OFFICIALS

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Minster of Municipal Affairs, Recreation and Housing

Honourable Glen Clark
Minister of Finance and Corporate Relations

Jack Finnbogason
President, B.C. School Trustees Association

Honourable Anita Hagen
Minister of Education and Minister Responsible for Multiculturalism and Human Rights

Mayor Joyce Harder
President, Union of British Columbia Municipalities

APPENDIX 2

SCHEDULE OF REGIONAL MEETINGS

Prince George	September 30 7:00 - 10:00 p.m.	The Coast Inn of the North 770 Brunswick Street
Kelowna	October 5 7:00 - 10:00 p.m.	Coast Royal Anne 348 Bernard Avenue
Vancouver	October 6 7:00 - 10:00 p.m.	Simon Fraser (Harbour Centre) 515 West Hastings Street
Cranbrook	October 8 7:00 - 10:00 p.m.	Inn of the South 803 Cranbrook Street North
Surrey	October 13 7:00 - 10:00 p.m.	Cargill Manor 3550 King George Highway
Kamloops	October 14 7:00 - 10:00 p.m.	The Dome Motor Inn 555 West Columbia Street
Victoria	October 19 7:00 - 10:00 p.m.	The Coast Victoria Harbourside Hotel 146 Kingston Street